

BALANCED BUDGET AMENDMENT

HEARING

BEFORE THE
SUBCOMMITTEE ON THE CONSTITUTION
OF THE
COMMITTEE ON THE JUDICIARY
HOUSE OF REPRESENTATIVES
ONE HUNDRED EIGHTH CONGRESS

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BALANCED BUDGET AMENDMENT

THURSDAY, MARCH 6, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CONSTITUTION,
COMMITTEE ON THE JUDICIARY,
Washington, DC.

The Subcommittee met, pursuant to call, at 12:06 p.m., in Room 2226, Rayburn House Office Building, Hon. Steve Chabot, Chairman of the Subcommittee, presiding.

Mr. CHABOT. The Subcommittee will come to order. This is the Subcommittee on the Constitution. I'm Steve Chabot, the Chairman.

This afternoon, the Subcommittee on the Constitution convenes to hear testimony concerning the Balanced Budget Amendment. The major impetus for balancing the Federal budget is the impact of the Federal debt and interest payments on future generations of Americans. The Federal budget deficit has become one of the most persistent political issues in recent years. Since the 1930's, dozens of proposals have called for laws or constitutional amendments that would limit the growth of the Federal budget or of the public debt.

Legislative efforts to adopt a balanced budget have largely proven unsuccessful in eliminating deficit spending. Congress has repeatedly relaxed the deficit targets in the Balanced Budget and Emergency Deficit Control Act of 1985, Gramm-Rudman-Hollings Act, and new budget control mechanisms have not offered a realistic long-term prospect of continued deficit reduction. Only a constitutional amendment will fully ensure a balanced budget.

Congress balanced the budget in 1997 for the first time in 30 years. Since then over \$453 billion in debt has been retired. However, \$233 billion has been added due to post September 11 security spending and a softening economy. Congress continued—Congress cannot continue to run up such deficits each year. A balanced budget amendment is needed to hold Congress accountable for its management of public funds and prevent any future congresses from engaging in deficit spending.

The President's fiscal year 2004 budget includes \$352.3 billion for interest payments on the outstanding debt. That figure will rise as long as we continue to have deficits. The cost of financing the debt we've already accrued would cover the bulk of the cost for the war on terror which the President's budget estimates at \$392.7 billion. If the budget were balanced we would be in a much better position to deal with large, necessary expenditures that occur outside the normal budget process.

Furthermore, a balanced budget amendment is needed to protect Social Security, Medicare, and other priorities important to America's children and seniors. Interest payments are the second largest single item of Federal spending following Social Security. Controlling the debt will provide Government with the cash to ensure the prosperity of future generations and safeguard funds designated for seniors and their existing medical needs.

Public opinion surveys consistently show that 70 to 80 percent of the population support passing a balanced budget amendment to the Constitution. Balancing the budget has made it possible for Congress to pass tax cuts, including the largest tax cut in recent history. Tax cuts have spurred economic growth, helping millions of American families. Since 1996 nearly 9.7 million jobs have been created, and nonresidential investment has increased 34.6 percent. A typical family has saved \$672 or more in interest expenses every year because balanced budgets have reduced inflation pressure and interest costs.

In conclusion, a balanced budget amendment is necessary to eliminate Federal deficits and restore the economic health of our Nation. The benefits of the amendment are clear. Once Congress eliminates deficits, funds will be available for private investment, resulting in lower inflation, reduced interest rates and increased productivity and overall economic growth. With this in mind I look forward to hearing from our witnesses today.

[The prepared statement of Mr. Chabot follows:]

PREPARED STATEMENT OF THE HONORABLE STEVE CHABOT, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO

This morning the Subcommittee on the Constitution convenes to hear testimony concerning the Balanced Budget Amendment. The major impetus for balancing the federal budget is the impact of the Federal debt and interest payments on future generations of Americans. The Federal budget deficit has become one of the most persistent political issues in recent years. Since the 1930s, dozens of proposals have called for laws or constitutional amendments that would limit the growth of the federal budget or of the public debt.

Legislative efforts to adopt a balanced budget have largely proven unsuccessful in limiting deficit spending. Congress has repeatedly relaxed deficit targets in the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings Act) and new budget control mechanisms have not offered a realistic long-term prospect of continued deficit reduction. Only a Constitutional amendment will fully ensure a balanced budget.

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Furthermore, a balanced budget amendment is needed to protect Social Security, Medicare and other priorities important to America's children and seniors. Interest payments are the second largest single item of federal spending following Social Security. Controlling the debt will provide government with the cash to ensure the prosperity of future generations and safeguard funds designated for seniors and their existing medical needs.

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Mr. CHABOT. And at this time I would yield to the gentleman from New York, the Ranking Member of the Committee if he would like to make an opening statement or if he'd like to defer to Mr. Scott for a minute or two here.

Mr. NADLER. Let Mr. Scott speak for a minute or two, besides I want to read the prepared statement.

Mr. CHABOT. Thank you. We'll hear from Mr. Scott then.

Mr. SCOTT. Thank you. Thank you, Mr. Chairman. Mr. Chairman, as we have the witnesses, my question to them, and I hope they all deal with it, is not whether or not generically a balanced budget is better or worse than a budget in serious deficit, but whether or not this constitutional amendment will help things or make them worse. We don't need a balanced budget amendment. What we need is a balanced budget. We're dealing with a budget right now that is a result of massive tax cuts that have thrown this thing so far out of balance that if you eliminated all of the non-defense, nondiscretionary spending, the on-balance—the on-budget part of the—the non-Social Security trust funds, if you eliminated all of Government, you still would not be in balance. The non-defense discretionary part of the budget is \$425 billion. This thing is 460 some million dollars in deficit right now, offset a little bit by the Social Security and Medicare trust funds.

The Chairman has said it is all because of 9/11. Wrong. this thing went out of balance, it was out of balance on September 10, and we didn't change. Now, we've got an excuse for it to be in deficit. Now, we just keep going and going and going. This budget will not balance itself whether we have a balanced budget constitutional amendment now. You have got to take some tough votes and wasting time with a constitutional amendment won't help. We need to balance the budget, get serious, and you can't have all these massive tax cuts that the Chairman has bragged about, and expect the budget to suddenly come in balance.

I thank you, Mr. Chairman, for the opportunity to ventilate a little bit. [Laughter.]

Mr. CHABOT. Thank you.

Mr. Nadler, did you want to make an opening statement?

Mr. NADLER. Yes, I do. Thank you, Mr. Chairman.

Mr. Chairman, the fact that we're here considering, allegedly considering—I mean we know what's going to happen—this balanced budget constitutional amendment is an exercise of the greatest hypocrisy I have seen in my years in Congress.

When President Clinton left office the forecast surplus over the next 10 years was \$5.6 trillion. Based on that, relying on that, President Bush and the Republican Party assured us we could do

\$1½ trillion in tax cuts. Some Democrats said, well, that \$5.6 trillion isn't firm. It's fairly—it assumes there will never be a recession, that the boom will go on forever—booms never go on forever—and certain other assumptions, but we were told, "You can rely on that," and so we passed this huge tax cut. Now we're being told to extend the tax cuts, make them permanent, add additional tax cuts such that if we followed the instructions that we are being asked at the request of the President and the majority leadership of this House. The foregone revenue from these two tax cuts combined will be about \$4 trillion over a decade, \$4 trillion.

We've now gone to where we're going to have—we're forecast to have \$2.6 trillion in deficits over the next 10 years before we pass these tax cuts. And if we pass them, of course that doesn't count the war with Iraq which is expected to cost zero dollars according to the current budget estimates. You're obviously going to have huge deficits.

But the Republicans have recently said that—have said that running deficits are desirable. Treasury Secretary Snow recently said debts don't matter. Tom Delay denounced Alan Greenspan for suggesting that the deficit may be a problem, and that additional tax breaks might be bad for the country. Someone—I forget which Member of the House was quoted in the New York Times a few weeks ago saying, that well, if you had to choose—he used to be a deficit hawk, but now he understood better, and if he had to choose between big Government with a surplus and small Government with a huge deficit, he'd take the small Government with the huge deficit, and that deficits are useful. Tom Delay said this. Deficits are useful for making Government spend less money because if you actually debate, you can spend money on education or housing, whatever, you lost the debate. But if you say we're broke, you can forego that spending.

The same people who are telling us that deficits don't matter and that we want to force a deliberate deficit in order to hold down spending, now have the audacity to bring this piece of crap before us to amend the Constitution of the United States to forbid what they are deliberately doing in order, presumably, to hide from the American people that they are in fact deliberately creating very large-scale deficits.

We don't need a constitutional amendment. President Clinton, the Democratic leadership of the House and the Senate back in 1993, and to a lesser extent the Republican leadership of the House and Senate after 1995, showed that if you cut expenditures and you don't cut taxes too much, you can—or you increase taxes as was done in 1993, and you have proper stewardship over the economy and have decent growth rates, you can balance the budgets. It took 8 years to undue the damage from the '81 tax cuts that led us into quintuple the national debt during the Reagan and first Bush years. We turned that around in the Clinton administration, took about 6 months to reverse that in the second Bush administration, and now the people who have put this nation back on the path to large-scale deficits, no matter what we do, large-scale deficits, just in time for the baby boomers to retire and start putting real pressure on Social Security and Medicare and say it doesn't matter. Now, these people have the audacity to say, let's amend the Con-

stitution with an unworkable amendment, so that they can go up and lie to the American people and says, see, we're okay. We want to support balanced budgets. The other side, the Democrats don't because they won't vote, or some of them won't vote for a balanced budget amendment. But obviously, it's all a lie because they don't care about a balanced budget because they told us that.

So I'm going to put my statement, my written statement into the record because it dignifies this amendment by actually talking to its provisions. I'm not going to do that right now because frankly, the audacity, the dishonesty and the hypocrisy of bringing up this amendment at this time is so breathtaking, that if I actually started talking about the provisions of it, I'd probably violate some rule. So I'll submit this for the record, Mr. Chairman.

I yield back.

Mr. CHABOT. Thank you. I think you already violated several rules during the course of that tirade, but we'll overlook that at this time.

I would ask unanimous consent to permit Mr. Istook to participate in the Committee. He's the principal sponsor of the constitutional amendment. I would also ask that all Members have 5 legislative days in which to revise and extend their remarks and to include extraneous matter.

And, Mr. Hostettler, did you want to make any type of opening statement?

Mr. HOSTETTLER. No, thank you.

Mr. CHABOT. Thank you. If not, I'll go ahead and introduce the witnesses at this time.

Our first witness will be John Berthoud, President of the National Taxpayers Union, and the National Taxpayers Union Foundation in Alexandria, Virginia. Founded in 1969, NTU is the Nation's largest grassroots taxpayer group with 335,000 members in all 50 States. The foundation was founded in 1977 and provides critical research on a variety of tax and fiscal issues. Prior to joining NTU Dr. Berthoud worked for a variety of public policy organizations in Washington. He is presently an adjunct lecturer at George Washington University, teaching graduate level courses on budgetary politics. Mr. Berthoud has been a guest on hundreds of radio and television programs, and his work has appeared in a wide variety of publications across the country, and we welcome you here this afternoon, doctor.

Our second witness will be Kent Smetters, Assistant Professor at the Wharton School at the University of Pennsylvania. Mr. Smetters received his Ph.D. in economics in 1995 from Harvard University and worked at the Congressional Budget Office from 1995 to 1998, where he conducted research on Social Security and tax reform. He has been an assistant professor at the Wharton School since 1998, and served as a visiting professor at the Stanford Economics Department during the 2000–2001 academic year. Mr. Smetters was appointed Deputy Assistant Secretary for Economic Policy of the U.S. Treasury Department on July 3rd, 2001, where he served until August 30th, 2002, when he returned to the University of Pennsylvania. He remains active in Washington, D.C., including serving as a member of the Blue Ribbon Panel on

Dynamic Scoring for the Joint Committee on Taxation. And we welcome you here this afternoon.

Our third witness will be Richard Kogan, Senior Fellow at the Center on Budget and Policy Priorities. Mr. Kogan joined the Center in January 2001, specializing in Federal budget issues including aggregate spending, revenue surpluses and deficits and debt. This is his second tour at the Center, where he was a senior fellow in 1995 and 1996. Prior to that Mr. Kogan served for 20 years on the staff of the Committee on the Budget of the U.S. House of Representatives, most recently as the Director of Budget Policy. In 1990 he designed and drafted the Budget Enforcement Act, which established caps on discretionary appropriations and the pay-as-you-go rule for tax and entitlement legislation. Prior to that Mr. Kogan served for 5 years in the Congressional Research Service, specializing in budgetary conflict between the Executive and Legislative Branches. He holds a B.A. from Yale University. And we welcome you here this afternoon as well.

Our final witness will be William Beach, the John M. Olin Senior Fellow in Economics and Director of the Center for Data Analysis at the Heritage Foundation. As CDA Director, Mr. Beach oversees Heritage's original statistical research on taxes, Social Security, crime, education, trade and a host of other issues. He was instrumental in developing the state of the art econometric models Heritage uses to estimate and detail how proposed tax changes will likely affect individuals, families and various business sectors, as well as the overall national economy. Prior to joining Heritage in 1995, Mr. Beach served as a litigation economist with two Kansas City, Missouri law firms, Campbell and Bisefield and Watson S. Marshall and Angus, where he specialized in analyzing how antitrust legal remedies will alter product pricing and availability. Later as an economist for Missouri's Office of Budget and Planning, he designed and managed the State's econometric model and advised the Governor on revenue and economic issues. Prior to that, Mr. Beach served as President of the Institute for Humane Studies at George Mason University. And we welcome you here this afternoon as well.

And we will begin with Dr. Berthoud.

STATEMENT OF JOHN BERTHOUD, PRESIDENT, NATIONAL TAXPAYERS UNION, NATIONAL TAXPAYERS UNION FOUNDATION

Mr. BERTHOUD. Mr. Chairman, thank you very much. It's a pleasure to be on a very distinguished panel. I must imagine I'm only going first because I have a last name that starts with a "B", although Bill Beach actually then should go first. But it's a pleasure to be with this distinguished panel and before this distinguished Subcommittee today.

Mr. CHABOT. Doctor, I forget to mention we ask everybody to limit it to 5 minutes, their testimony. We'll give you an extra 5 seconds, sir, because I interrupted you.

Mr. BERTHOUD. Thank you very much. I would like to just briefly today mention and summarize my remarks, focus in on two points, why deficits matter and what do we do about deficits.

It's the position of the National Taxpayers Union that we should enact the balanced budget amendment that is being considered today, and this will result in better public policy. In my testimony you will see I outlined four basic areas and four basic lines of reasoning why deficits to matter.

First, savings and investment. I have a quote in my testimony from Herbert Stein: "The important effect of the absolute size of the deficit or surplus is the effect on private investment. That is, I think, the view now held by most, although not all, economists. The argument is simple. Private savings equal the sum of private investment plus the Government deficit. Private saving is totally absorbed in these two uses. The larger the Government deficit is, the smaller private investment will be—unless the larger Government deficit is matched by an equally larger total of private savings."

And he believes that when increases in Government spending drives deficits higher, there is an adverse impact for the economy as Government crowds out the more productive private sector activity.

Secondly, second: inter-generational issues. Dr. Smetters, who will follow me, has—I will just defer to him and his terrific testimony, excellent testimony on long-term liabilities.

Third. Public cynicism. Certainly and unfortunately, particularly in the last 5 or 6 years in Washington, the public has many reasons to be cynical about Washington and the operation of American politics. I think rising levels of distrust are poison in a system that is a democratic system based on the will and trust and participation of individual citizens. While there are other causes, I believe that large and continuous Federal deficits add to this distortion and cynicism.

Finally, distorting the budget decision-making process. Deficits, we believe, lead to more Government than would otherwise be the case, and while different Members of the Committee, Mr. Scott mentioned, didn't seem to support tax cuts being enacted. I think we have different visions on what might not be enacted were a balanced budget amendment enacted. The National Taxpayers Union, for example, would be very happy if we had a BBA last year, and that would have prevented perhaps something like the Farm Bill, which we lobbied hard against, being enacted. Mr. Scott perhaps would have been happy to see less tax cuts, but in any event, I think Washington would be a very different place. The output of Federal Government would be very different.

How—in terms of how does deficit finance expand Government, let me offer another quote from Nobel Laureate Milton Friedman: "As a strong supporter of a constitutional amendment requiring the Federal Government to balance its budget and limit spending, I clearly share the aversion to deficits that politicians of all shades of opinion have been expressing so loudly. But my reasons are quite different from theirs. In my view, the key question to deficits is political, not economic. The economic harm attributed to deficits—whether high interest rates, inflation or economic stagnation—comes not from the deficits but from the high level of Government spending."

And I certainly would think—again, I think the example I would point to—it’s hard to imagine in your balanced budget amendment—if we had a balanced budget amendment in place last year, things like the farm subsidy bill would have been enacted, but—and so Friedman finishes: “comes not from the deficits but from the high level of Government spending that those deficits help finance.”

And I think the evidence that Dr. Friedman—the evidence suggests that Dr. Friedman is indeed correct. In 1962, total non-defense Federal outlays were a mere 9.5 percent of GDP. By 2002 nondefense outlays were 16.1 percent of GDP, an increase in just 40 years, 40 years of my life, of 69 percent. Mr. Nadler is of course correct, we did indeed balance the budget for several years. I would, with due respect, argue that it was much to do—I think Congressman Nadler said expenditures—

Mr. NADLER. Nadler.

Mr. BERTHOUD. Excuse me, I’m sorry. Nadler said that expenditures were cut. The only area that we’ve really seen expenditures cut was—

Mr. NADLER. And taxes increased, I said both.

Mr. BERTHOUD.—were national defense. Nondefense spending actually grew at a very healthy level. The two reasons, when I look at the numbers published by the CBO or OMB, of why we balanced the budget, I wish—and I know Republicans and Democrats unanimously would like to claim credit for that—much less individual actions by Congress and the President, but more the tremendous economy that we had in the late 1990’s and a massive cutback in national defense spending were the two reasons, with all due respect to the Members of the Committee and your dedication to deficit reduction.

So it’s my belief that outside of—and NTU’s belief—that outside of a time such as late 1990’s, which was very much an anomaly in American history, and certainly you look at the last 40 years under Republican and Democrat controlled White House and Congress, we see continually and repeatedly deficits are the norm. I wish—Alice Rivlin and others have made a case that we need is better leadership. I wish that were the case. The fact is that we can’t have that on a continual basis. So as you yourself have said, Mr. Chairman, statutory measures have not worked, not worked well, not delivered us permanent deficit, ending of deficits, and so we—I think we need a permanent constitutional amendment which will require Congress and the President, year in and year out, to balance expenditures with revenues.

[The prepared statement of Mr. Berthoud follows:]

PREPARED STATEMENT OF JOHN BERTHOUD

I. INTRODUCTION

Chairman Chabot and Members of the Subcommittee, my name is John Berthoud. I am President of the National Taxpayers Union (NTU), a nationwide grassroots lobbying organization of taxpayers with 335,000 members. You can find out all about NTU—and our educational affiliate, the National Taxpayers Union Foundation—on our website: www.ntu.org.

I come here today to offer testimony in favor of the Balanced Budget Amendment (BBA) that has been introduced by Representative Istook, Representative Stenholm, and some 100 of their colleagues. This is the same Balanced Budget Amendment that passed the House with 300 votes in 1995, only to fall one vote short of the required $\frac{2}{3}$ margin in the Senate.

I will argue today that a BBA will improve the fiscal process of the United States and is in our long-term best interests—both economically and politically.

II. THE PROBLEM OF DEFICITS

Large federal deficits have plagued the United States for decades. While the problem abated for four years at the end of the 20th century, we have now returned to deficits for the foreseeable future. As this Subcommittee well knows, the White House is now projecting deficits for this year and next in excess of \$300 billion. And those figures don't include the costs of any war in the Middle East.

NTU believes deficits and debt lead to four fundamental problems for our economy and nation.

1. Savings and Investment. While different studies have come to varied conclusions on the impact of deficits, most economists would agree that federal deficits are a problem insofar as they reduce private sector investment. Herbert Stein summarized the thinking of much of the economics profession when he noted:

[T]he important effect of the absolute size of the deficit or surplus is the effect on private investment. That is, I think, the view now held by most, although not all, economists. The argument is simple. Private savings equal the sum of private investment plus the government deficit. Private saving is totally absorbed in these two uses. The larger the government deficit is, the smaller private investment will be—unless the larger government deficit is matched by an equally larger total of private savings.¹

NTU believes that when increases in government spending drive deficits higher, there is an adverse impact for the economy as government crowds out more productive private sector activity.

2. Inter-generational Issues. Second, federal deficits add to our mounting generational imbalance—the huge fiscal burdens we are leaving for our children. Large federal deficits and debt on top of entitlement programs that are facing grave long-term financing problems are a terrible legacy for the future.

The inter-generational aspects of debt have been a concern of leaders in this nation since the beginning of our country. To Jefferson, if one generation incurred a public debt, it was in violation of “natural law” because it raised “the question whether one generation of men has a right to bind another.”²

Lead sponsor Ernest Istook has made the argument well, “While we manage our national and homeland security, we must plan ahead to guarantee that we return to a balanced budget once we overcome these challenges. We must assure our kids and grandkids inherit freedom and security, but do not inherit a crushing national debt.”³

3. Public Cynicism and a Break-down in Government. Certainly, and unfortunately, the public has many reasons to be cynical about Washington and American politics. Rising levels of distrust of government are poison to a democracy. While there are other causes, we believe that large and continuous federal deficits add to this cynicism.

Beyond turning off the public, large and continuing deficits lead to less responsive government. While some have made the case that a Balanced Budget Amendment would limit the flexibility of the country to respond to public crises, in reality, deficits are a far greater impediment. Comptroller General Charles Bowsher observed a number of years ago that: “The deficit has severely hampered the ability of the Congress and the administration to deal with emerging issues that are of growing importance to the American people.”⁴ Bowsher cited AIDS as one example of a problem not dealt with promptly because of our large deficits.

4. Distorting the Budget Decision-making Process. Finally, deficits lead to more government than would otherwise be the case. This is bad for two reasons: besides leaving society with a non-optimal mix of government and private sector, larger government also means lower economic growth.

How does deficit finance expand government? Nobel Laureate Milton Friedman said in 1984 that:

¹ Herbert Stein, *Presidential Economics: The Making of Economic Policy from Roosevelt to Clinton* (Washington, DC: The American Enterprise Institute, 1994), Pages 350–351.

² Peter G. Peterson, *Facing Up: How to Rescue the Economy from Crushing Debt and Restore the American Dream* (New York, NY: Simon & Schuster, 1993), Page 223.

³ “Istook Introduces Balanced Budget Amendment,” Press Release of Representative Ernest Istook, February 13, 2003, <http://www.house.gov/istook/rel-bba03.htm>.

⁴ Charles Bowsher, “The Disinvestment of Government,” *The GAO Journal*, Number 4, Winter 1988/89, Page 60.

As a strong supporter of a constitutional amendment requiring the federal government to balance its budget and limit spending, I clearly share the aversion to deficits that politicians of all shades of opinion have been expressing so loudly. But my reasons are quite different from theirs. In my view, the key question to deficits is political, not economic. The economic harm attributed to deficits—whether high interest rates, inflation or economic stagnation—comes not from the deficits but from the high level of government spending that those deficits help to finance.⁵

Taxes are the price we the citizenry pay for government services. When government pays for programs through deficit finance, the price of government for today's citizens declines. Given this subsidy from future generations, it is only natural that we as a society will thus opt for more government than we would have chosen if we had to pay the full price for it. By analogy, if a consumer is weighing whether to buy a Pepsi for \$1 or remain thirsty, it may be a tough choice. If that consumer can pass half the cost of that Pepsi onto some unknown person living in the future, the choice to consume becomes very easy.

The evidence is suggestive that Friedman is correct that allowing deficit finance leads to higher spending. In 1962, total non-defense federal outlays were 9.5 percent of GDP. By 2002, non-defense federal outlays were 16.1 percent of GDP, an increase of 69 percent.⁶

And there is a growing body of evidence linking high government spending with lower economic growth. For example, a Rand Corporation study found that for every 10 percent of a nation's total annual income that is spent by government, the average growth rate of that nation's economy is reduced by one percent annually.⁷

Because of the inverse relationship between government spending and economic growth, through holding down deficits and excessive government spending, we can substantially increase our long-term economic prosperity.

III. STATUTORY MEASURES JUST WON'T SUFFICE

So it seems clear that deficits driven by higher federal spending harm the economy. The question is, how can we stop deficits?

Alice Rivlin and others have made the case that rather than procedural changes such as a Balanced Budget Amendment, we need more virtuous leadership in Washington.⁸ This is not a new plea in American politics and unfortunately, proponents of better leadership for the nation have yet to explain how such leadership is to be permanently attained. This goal is as illusory in the 21st century as it was in the 18th century, when it was discussed at length in *The Federalist Papers*.

So we need some procedural change. In light of the difficulty of passing a constitutional amendment, there have been numerous efforts since adoption of the Congressional Budget and Impoundment Control Act in 1974 to statutorily change the budget rules to fight deficits.

The most ambitious of these efforts was the Gramm-Rudman-Hollings experiment of 1985–1990. This effort may have modestly reduced deficits—on the order of \$15 billion per year, mainly through limiting spending.⁹ But the same factor that undermined the law's effectiveness ultimately killed it—Gramm-Rudman-Hollings was a mere statute. Congress and the President could roll back, and in the end terminate, the deficit targets when the political decisions became too tasking.

⁵James Savage, *Balanced Budgets & American Politics*, (Ithaca, NY: Cornell University Press, 1988), Page 9.

⁶Table 8.4, *Fiscal Year 2004 Historical Tables, Budget of the United States Government*. During that same period, national defense dropped from 9.2 percent of GDP to 3.4 percent.

⁷Charles Wolf, Jr., *Markets or Government: Choosing Between Imperfect Alternatives* (Cambridge, MA: MIT Press, 1988), Page 146. Lewis Uhler extrapolates from these findings: "Assume that the United States were to reduce the proportion of its spending at all levels of government from 40 percent of our Gross Domestic Product (GDP) to about 20 percent. Assuming a current average annual economic growth of about two percent, we would double the average annual rate of growth of our nation's economy—and compound that every year." (Lewis Uhler, *Setting Limits: Constitutional Control of Government*, (Washington, DC: Regnery Gateway, 1989), Pages 83–84.)

⁸Alice Rivlin, "Reform of the Budget Process," *American Economics Association Papers and Proceedings*, May 1984.

⁹See John Berthoud, *Gramm-Rudman-Hollings: The Fiscal Weapon of Public Choice?* (New Haven, CT: Yale University Doctoral Dissertation, Department of Political Science, 1992); Sung-Deuk Hahn, Mark S. Kamlet, David C. Mowery, and Tsai-Tsu Su, "The Influence of the Gramm-Rudman-Hollings Act on Federal Budgetary and Fiscal Policy Outcomes 1986–1989," Paper presented to the Annual Meeting of the Southwestern Political Science Association, March 27–29, 1991.

Mr. Chairman, as you yourself have summarized, “legislative efforts to balance the budget have proven largely unsuccessful in limiting deficit spending. The surpluses we enjoyed for the last few years have proven to be a short-term anomaly as Congress has repeatedly relaxed deficit targets and circumvented statutory spending limits . . . Given the propensity of Congress to evade legislative efforts to control spending, a constitutional amendment is the most effective—and perhaps only—way to ensure that Congress balances its budget each year.”¹⁰

Only a constitutional guarantee will deliver year after year of balanced budgets for the United States. As Judiciary Committee Chairman Sensenbrenner has stated, “The time has come for a little constitutional supervision over the Congress, just like we have to have parental supervision over our children.”¹¹

IV. CONCLUSION

There are no magic solutions in public budgeting or public policy in general. NTU does not pretend that the BBA will instantly cure all the nation’s fiscal problems or correct all long-term financial imbalances. But we come before this distinguished Subcommittee today to state that enactment of a Balanced Budget Amendment would without a doubt produce superior results to the policies of the preceding decades.

The version of the BBA that Representatives Istook and Stenholm have introduced is very good. There are no loopholes in it—as we’ve seen in other versions of the BBA that Congress has considered over the years. The National Taxpayers Union and our 335,000 members urge the Subcommittee to favorably report this measure.

Thank you.

Mr. CHABOT. Thank you.

Mr. BERTHOUD. Thank you

Mr. CHABOT. Dr. Smettters?

STATEMENT OF KENT SMETTERS, ASSISTANT PROFESSOR, THE WHARTON SCHOOL

Mr. SMETTERS. Thank you, Chairman and the Members of the Committee for the opportunity to speak on this amendment. I support—I applaud the supporters of this amendment and their efforts.

But in order to significantly increase the effectiveness, I would urge you first to reform the flawed cash-flow accounting system that is currently being used by the Government, and upon which this amendment is necessarily based. In fact the accounting system, if it was used in the private sector, would be illegal. As a director and officer you would go to jail if you used the current accounting system as used by the Federal Government because it ignores massive future liabilities.

My written remark is pretty comprehensive. I’ll just make three short points here.

First, I’d focus on the—simply on the debt held by the public, which is in fact a backward-looking measure. This amendment would ignore a large burden that’s actually being passed on to future generations. The Government right now says that we’re passing a debt to future generations of about 4 trillion, but if you had to calculate it properly, using actuarial principles, the debt is actually closer to \$43 trillion. \$35 trillion of this imbalance comes from Medicare, and there are 7 trillion from Social Security. The rest of the Government is in pretty good shape with an imbalance of only

¹⁰ Statement of Congressman Steve Chabot, Chairman, House Judiciary Subcommittee on the Constitution, Introduction of the Balanced Budget Constitutional Amendment, February 13, 2003.

¹¹ The Associated Press, “Balanced Budget Amendment Introduced,” February 13, 2003, <http://abcnews.go.com/wire/Politics/ap20030213—1522.html>.

about .7 trillion, and by the way, this includes the President's newest proposed tax cuts.

And so by present value, we mean we have to come up with \$43 trillion immediately today in order to put fiscal policy in the U.S. on a sustainable course, so if we wait, we would have to come up with more than \$43 trillion in future years to put fiscal policy on a sustainable course.

Let me give it to you in the form of an example. Suppose that we shut down half of the Government, military, law enforcement, Medicaid, NASA, everything, half of the Government, everything except Social Security and Medicare. And we do that not just this year, but we do it forever. Now, the current budget projection of \$150 billion deficit for next year would turn into a \$600 billion surplus. That sounds like a lot of money, and in fact, it would be surpluses for the next few years, but we would still accumulate surpluses too slowly over time to actually fix Social Security and Medicare. We'd actually be still—in net present value, be in the hole by \$3.2 trillion.

So the problems facing our country are huge. So we need to do more than just balance the budget today. We actually need to make large changes that place Social Security and Medicare in particular on a sustainable course.

Unfortunately the Government's budget documents are not forward looking this way. The \$43 trillion imbalance is not being shown on the books. Instead, the budget simply directs the public's measure to debt held by the public, which is a backward-looking measure.

So my second point is that by focusing only on the traditional measure of the debt, this resolution could actually make it harder, even though I support the general principles, it could actually make it harder to reduce the Government's true liabilities facing our country. For example, the Social Security Commission, recently appointed by the President, recommended three different models. Each model would increase the debt held by the public, and so under the traditional focus of debt held by the public, things would look worse under those models. But each of those models would actually decrease future liabilities of the Government, which aren't being tracked right now in our accounting system, by more than the increase in the debt being held by the public. So the Government's position would actually improve overall. But because we only focus on the debt, we don't report the other liabilities, so that it actually looks worse, but it in fact would actually improve things.

So current discussions about Social Security and Medicare reform start from a biased position because we only focus on one of the liabilities and ignore the rest, which again would be illegal in the private sector.

My third point is this. I support the general principles of this bill, but I ask you to go simply one step further, and first reform the accounting in order to get all the liabilities right. So I would ask you to expand the scope of this amendment in order to account, for example, for all the 43 trillion, and not just the 4 trillion.

In my written testimony, which is much more comprehensive, I have some ideas, in fact, particular ideas of exactly how to go about that.

But let me, in closing, simply make this remark. In the past year, we saw how dubious private sector accounting led to lots of problems, and then it's large cash flows for periods of time, only to be revealed much later on. And as a result, lots of pensioners and shareholders lost lots of money, and sometimes the Government's doing that right now. We're hiding massive liabilities and who's going to pay the price for future generations? We, right now, have to make massive cuts. And so I think the time to act really is now, and for the Government to show by example. Thank you.

[The prepared statement of Mr. Smetters follows:]

PREPARED STATEMENT OF KENT SMETTERS

Thank you Chairman Chabot and members of the Committee for the opportunity to speak on The Balanced Budget Amendment, H.J. Res 22. I support practically any effort to make it harder for one generation to pass large fiscal burdens to future generations, especially when it is not due to a recession or war. So I applaud the supporters of H.J. Res 22 in their efforts.

In order to significantly increase the effectiveness of this Amendment, I would, though, urge you to first reform the flawed cash-flow accounting system that is currently being used by the federal government and upon which H.J. Res 22 is necessarily based. The government reports that the national debt in 2003 was about \$3.8 trillion in the form of government "debt held by the public." But that number ignores massive imbalances in the Medicare and Social Security programs and the government's other programs. When the liabilities associated with those programs are taken into account, the nation's fiscal policy is currently off-balance by over \$43.4 trillion in present value, a number that is not reported in standard budget documents. So, a balanced budget amendment that fails to include the present value of the future shortfalls would miss over nine-tenths of the burden that must be paid in the future in the form of tax increases, benefit cuts, or both. In fact, by focusing only on the traditional measure of debt, as does H.J. Res 22, it could actually make it harder to reduce the true total liabilities facing our country.

In sum, I support an amendment to control the burdens being placed on future taxpayers. But I would urge supporters of H.J. Res 22 to go even further and include all of the liabilities that are currently "off the balance sheet" in the government's current accounting.

FOCUSING ON THE TRADITIONAL DEBT MEASURE
MISSES MASSIVE BURDENS ON FUTURE GENERATIONS

As of January, 2003, the public held about \$3.8 trillion of government debt. But that statistic only reflects the excess of past government spending over past revenue. To be sure, less debt is a good thing since it requires less future debt service. But it says very little else about the future. For example, a person who is currently free of debt still faces a problem if his future monthly rent is projected to consistently exceed his monthly income. Similarly, U.S. fiscal policy is promising current and future generations many more benefits than can be afforded.

Here are the numbers. Table 1 shows that projected future spending across all federal programs plus the amount of debt currently held by the public exceeds projected future revenue by \$43.4 trillion in present value, as of 2003. That imbalance is over *11 times* the \$3.8 trillion debt held by the public that the government officially reports. \$35.5 trillion of this \$43.4 trillion imbalance stems from Medicare (Parts A and B) alone while Social Security accounts for another \$7.2 trillion. The rest of the government is in relatively good shape and has an imbalance of only \$0.68 trillion. These estimates were made with a detailed model developed by Jagadeesh Gokhale and myself during our time in the Bush Administration. They conform to the Administration's newest economic and demographic assumptions, as just released in the President's 2004 budget, and they incorporate all of the President's new proposed policies, including, for example, his new tax reduction plan and prescription drug plan.

By "present value," we mean that all future spending and revenue are not only reduced for inflation but are additionally discounted by the government's (inflation-adjusted) long-term borrowing rate. This calculation allows us to determine how much money the government must come up with *immediately* in order to put fiscal policy on a sustainable course. Alternatively, the government must make cuts or in-

crease revenue totaling *more* than \$43.4 trillion in *future* years so that, when discounted to today, the sum of those cuts and extra revenue equals \$43.4 trillion.

The current fiscal imbalance is so large that it needs to be put into context. As an example, Table 1 shows that the government could, in theory, put the country on a sustainable course by raising the payroll tax on all uncapped earnings by 16.3 *percentage points* starting in 2004 and lasting *forever*. That would forever more than double the amount of taxes that are already being paid by employees to the Social Security and Medicare systems *and* the dollar-for-dollar matching paid by their employers. But even this calculation is conservative in that it assumes that taxes are raised on *uncapped* earnings, which is a larger tax base than used by Social Security. If capped earnings were taxed, an even larger tax rate would be needed.

Waiting just *four years* (until 2008) to implement this type of tax hike would require a permanent tax increase of 17.4 percentage points to close an even larger imbalance of \$51.5 trillion. The fiscal imbalance grows by about \$1.5 trillion *each* year between 2004 and 2008 (Table 1). That number is about *ten times* the deficit that the government officially projects for 2004. As with government debt, the fiscal imbalance grows with interest if no reforms are taken.

Such tax increases, of course, would probably put our economy into a tailspin. And so the above example is not intended as policy advice. But these calculations show the magnitude of the current fiscal imbalance and emphasize the need for real reform today. The longer the delay in reforming the nation's fiscal policies, the more drastic are the changes required.

Let me describe the current \$43.5 trillion shortfall another way. Instead of raising payroll taxes, suppose we eliminate *half* of the rest of the federal government in 2004 except for Social Security and Medicare. In particular, we eliminate half of the federal government's spending on the military, homeland security, roads, education, veteran's affairs, agriculture, labor affairs, NASA, commerce, law enforcement, Medicaid, etc.—everything except for Social Security and Medicare. And we do this not just in 2004 but *forever*. Also suppose that we don't change federal taxes so that people continue to pay taxes as projected. Now, for example, the \$150 billion deficit projected for 2004 would turn to a \$600 billion surplus! That sounds like a lot of money. But we would still accumulate surpluses too slowly over time. In particular, we would still be left with a fiscal imbalance of about \$3.2 trillion. In other words, *shutting down half of the rest of government forever is not enough to put the U.S. fiscal policy on a sustainable course.*

We need to do more than just balance the budget today. We need to make large changes that place Social Security and Medicare, in particular, on a sustainable course in order to avoid placing huge burdens on future generations in the form of higher taxes or reduced benefits.

THE FOCUS ON THE TRADITIONAL DEBT MEASURE MAKES IT HARDER TO REDUCE LIABILITIES

And so why don't we see real reform yet? The reason is that, unfortunately, the government's budget documents are not forward looking. The \$43.4 trillion imbalance is not shown in the official budget. Instead, the budget directs the attention of the public and policymakers to the level of government debt, which, in turn, creates a bias against reform.

To understand the budget's current bias against reform, suppose that individuals are given the option to invest some of their payroll contributions into personal accounts that they would own and control. In exchange for this option, a person's Social Security benefit is reduced one dollar in present value for each payroll dollar invested. The retirement benefits of those choosing personal accounts, therefore, would be composed of reduced Social Security benefits plus additional income derived from their personal account assets.

Because those currently covered under Social Security's pay-as-you-go system must still be paid their benefits, government borrowing would increase. Under the traditional focus on government debt, therefore, this reform would *appear* unfavorable. But debt interest is just one component of the government's liabilities. The government's liabilities also include future Social Security benefits, which would decrease under this reform. In fact, future Social Security liabilities would decrease by exactly the same amount as the increase in the debt. The government's true financing position, therefore, would remain unchanged by this reform.

In other words, current discussions about reform start from a *biased* position since even a neutral reform looks bad under current budgeting. In fact, the government's failure to properly account for future shortfalls is the culprit behind the popular myth that creating personal savings accounts requires a large "transition cost." As the above reform experiment shows, it is possible to give people choice and con-

trol over their assets without any transition costs when *properly* measured. Of course, a “transitional investment” is needed to actually increase national saving.

Now let’s drive the point home by modifying this example. Suppose that future Social Security benefits were now reduced by a little *more* than one dollar for each dollar of payroll a person invests into her personal account. This example is similar to Model 1 of the President’s Social Security Commission. Many people might choose this plan in order to have more control over their retirement resources, freeing them somewhat from a risky government plan. But from the perspective of policymakers, this reform would also increase the government’s debt since the government still needs resources in order to meet current benefit obligations. The government’s true fiscal imbalance, however, would actually *decline immediately* under this plan because future Social Security obligations would fall by *more than* the increase in government debt.

The traditional focus on government debt, therefore, creates a bias in decision-making against potential reforms that could actually *improve* the government’s financial position. A more complete accounting, which explicitly recognizes the future net obligations of Social Security and Medicare as well as the rest of government, would help remove this bias. Hence, before the Constitution is amended to balance the budget, the government’s outdated accounting methodology needs to be reformed to include future liabilities as well.

IMPROVING THE GOVERNMENT’S ACCOUNTING METHODOLOGY

Table 1 captures the key ingredients that any thorough budget measure must include. Table 1 has three key features:

1. It decomposes the fiscal imbalance into that On Account of Living and Past Generations as well as that On Account of Future Generations.
2. It covers all government outlays and revenue sources.
3. It discounts federal outlays and revenues across all future years.

Let me expand on each of these three points.

Generational Decomposition of Fiscal Imbalances

Table 1 shows that Social Security’s \$7.2 trillion imbalance as of 2003 is caused by large transfers to living and past generations. In particular, past and living generations are projected to receive \$8.9 trillion more in benefits in present value than they have paid and will pay in taxes. In other words, the government promised these generations much more in the way of benefits than it collected from them in taxes. In contrast, future generations are projected to pay \$1.7 trillion more in taxes in present value than they will receive in benefits, and so they help reduce the imbalance a little bit. But their net contribution of \$1.7 trillion is not enough to overcome the \$8.9 trillion “overhang” left over from the windfall given to past and current generations. For Social Security to fully return to balance, living and future generations must receive fewer benefits and/or pay more taxes equal to the difference, or \$7.2 trillion, in present value.

In sharp contrast, Table 1 also shows that a majority of Medicare’s imbalance as of 2003 is on account of *future* generations. Future generations are projected to contribute \$19.6 trillion to Medicare’s total imbalance of \$35.5 trillion while past and living generations contribute about \$16 trillion. The reason that future generations contribute more to Medicare’s fiscal imbalance is due to the projected rapid growth in future medical expenses per capita. As with Social Security, either current or future generations must receive fewer benefits or pay more taxes—\$35.5 trillion worth in present value in this case—in order to restore Medicare to sustainability.

At first glance, one might think that this generational decomposition is just “extra information” that is not crucial to the creation of an honest budget measure. That conjecture, though, would be very wrong. The decomposition information serves two related purposes:

- (i) THE GENERATIONAL DECOMPOSITION REVEALS FUTURE BURDENS THAT WON’T BE DETECTED BY EITHER THE FISCAL IMBALANCE OR DEBT MEASURES.

The fiscal imbalance measure only indicates the degree to which policy is unsustainable; it, alone, does not indicate future burdens. Without the generational measures, policymakers could still creating large future burdens in a hidden manner. So, all the measures are needed.

As an example, suppose the U.S. Congress increased Medicare benefits and financed it by hiking payroll or other taxes by an equal amount each year. In other words, this new benefit is financed on a pay-as-you-go basis. This policy would not

change Medicare's fiscal imbalance because the new outlays are exactly matched by new revenues. As a result, the federal government's total fiscal imbalance would not change either. The debt held by the public would also not change since the new benefit is exactly financed by new revenue.

But this policy would still reduce the resources of future generations. The reason is that living retirees at the time of the new policy would gain from the new benefit for which they paid nothing during their working years. Also, many older workers at the time of this policy change would gain since they only have to help finance the new benefit for an abbreviated amount of time. Some younger workers and most future generations, however, would be worse off because they must pay for the benefit during a larger fraction of their working life. Since their payroll contributions are being transferred to the elderly rather than saved and invested, they lose a large amount of investment income that could have been derived from these resources.

In the context of Table 1, this new policy would increase Medicare's imbalance On Account of Living and Past Generations by the same amount as it would decrease Medicare's imbalance On Account of Future Generations, leaving its overall fiscal imbalance unchanged. In other words, living and past generations would receive a windfall that is directly offset by reducing the resources available to future generations. This redistribution can be captured only by showing the contributions of different generations to the overall imbalance.

(ii) THE GENERATIONAL DECOMPOSITION ALLOWS POLICYMAKERS TO MAKE MORE INFORMED DECISIONS WHEN DECIDING AMONG DIFFERENT SUSTAINABLE FISCAL POLICIES.

We can think of informed fiscal policymaking as involving two sequential steps. First, policymakers must decide on the set of possible fiscal policies that will place the nation's fiscal policy on a sustainable path, i.e., produce no total fiscal imbalance. The range is large. For example, policymakers could increase taxes, reduce benefits, or a combination of both. Also, these changes can be made immediately; alternatively, even more drastic changes could be made in the future. However, while each of these approaches can be used to produce a zero fiscal imbalance, each approach will typically yield a very different impact on the resources of each generation. For example, deciding to start decreasing the growth rate of Social Security and Medicare benefits today will be much more beneficial to future generations than increasing taxes over time. So the generational decomposition information helps policymakers decide among these options. The second step, therefore, is for policymakers to choose the specific plan among the set of sustainable policies that they believe produces the best tradeoff between generations.

All Sources of Outlays and Revenues

Another key feature of the budget measure shown in Table 1 is that it includes all of the federal government's sources of outlays and revenues. At first glance, it might seem necessary to only include the Social Security and Medicare programs since those programs are the ones in the most trouble. But that approach would be a major mistake for two related reasons.

(i) REPORTING ONLY THE IMBALANCES IN THE SOCIAL SECURITY AND MEDICARE PROGRAMS WOULD ALLOW FOR BUDGET MANIPULATION.

Suppose, for example, that legislation were passed that committed some of the future general tax revenue to the Social Security and Medicare programs. Under the accounting statement shown in Table 1, the total federal fiscal imbalance would remain unchanged because the "Imbalance of the Rest of Federal Government" would increase dollar-for-dollar with the decrease in the imbalances for Social Security and Medicare. In other words, Table 1 would correctly show that nothing of substance was done by simply redirecting money from one account to another. However, if only the "Imbalance in Social Security" and "Imbalance in Medicare" were shown, it would incorrectly appear that this simple transfer improved things.

Another relevant example is the increase in Social Security payroll taxes during the mid 1980s. While these payroll tax increases clearly reduced the imbalance facing Social Security by increasing the size of the trust fund, a considerable debate among academics has emerged as to whether these payroll taxes really reduced the government's total fiscal imbalance. In particular, if the extra tax monies were actually spent by the rest of the government then any reduction in Social Security's imbalance may have been offset by an increase in the imbalance in the rest of the federal government. A comprehensive measure, therefore, would make everything clear.

(ii) REPORTING THE IMBALANCE OF THE REST OF THE FEDERAL GOVERNMENT ALSO ALLOWS FOR MORE INFORMED POLICY DECISIONS

What ultimately matters for the issue of sustainability is the federal government's total fiscal imbalance. Still, understanding how that imbalance is divided between the different programs is informative. Notice, for example, that almost the entire federal government's fiscal imbalance is due to the Social Security and Medicare programs. The rest of the government is almost in balance, even though this measure includes the President's most recent tax proposals.

Indeed, Table 1 puts the President's most recent tax proposal in its proper context. Notice that the President's tax proposal does not produce a large Imbalance in the Rest of the Federal Government. Indeed, I hope that the President's plan will someday be followed by even more aggressive measures to reduce the marginal cost of investment in the U.S., including allowing companies to immediately expense all capital equipment in the year purchased. Eliminating the personal dividend tax along with a move to full expensing would effectively shift the U.S. tax system to a progressive-based consumption tax, which would promote investment while still preserving the important risk-sharing value of a progressive tax system.

Of course, there are some people who will argue that any surpluses in the rest of government could be used to help address the problems facing Social Security and Medicare. To be sure, these crippling programs could be helped somewhat in this manner.

Still, there is a certain irony to attempting to bail out Social Security and Medicare using general revenue: the very purpose of using an earmarked payroll tax for these programs—and a fairly regressive tax at that—was to create a *sense* of entitlement of pension-like benefits upon retirement. If we start making significant general revenue transfers, how do we differentiate Social Security and Medicare from a standard welfare program? Are people still “entitled?” Indeed, suppose that the tables were turned so that the Social Security and Medicare programs were in fine shape but the rest of government was not. Would it be okay *then* to raid the trust funds of these programs to pay for the rest of government? Presumably, those advocating general revenue transfers today would oppose robbing pensioners of their “entitlements.”

In any case, we cannot “nickel and dime” our way to saving Social Security and Medicare. We need serious reform of those programs. The costs and benefits of tax reform, national security, and other programs need to be basically decided on their own.

Including all Future Years

Table 1 also reports the imbalance associated with the federal government's fiscal policy across all future year, and not just over a fixed time window such as the next 75 years. There is widespread agreement among economists—both politically conservative and liberal—that it is incorrect to look at only a fixed time window when computing the fiscal imbalance. All future years must be included: ignoring problems projected for years beyond a fixed time window incorrectly discounts the revenues and outlays in those years at a rate of infinity. To be sure, the President's 2004 Budget reports an \$18 trillion fiscal imbalance for Medicare and Social Security over just the next 75 years. But that choice was due to a technical issue: the actuaries at the Centers for Medicare and Medicaid Services (CMS) and the Social Security Administration had not yet developed the tools for making longer-term estimates. There is widespread agreement in the Administration, in fact, that a fiscal imbalance measure must include all years.

The Social Security and Medicare Trustees' Reports show imbalances for those programs as a fraction of payroll for just a 75-year time horizon. Unfortunately, the 75-year horizon, therefore, has become a standard measuring stick in government, and so some historical background might be useful. Before 1965 (and, hence, before Medicare), the Trustees calculated the imbalances associated with Social Security's “scheduled benefits” based on all future years and not just 75 years. However, at that time, Social Security benefits were not indexed to prices and so they incorporated no inflation protection. Instead, Congress would pass legislation every couple years to increase the nominal value of benefits. As a result, it was widely known that the “scheduled benefits” associated with any particular law would not materialize as the actual level of benefits just a few years later. However, the Trustees are charged with describing the law as it stands, not with how they think it will evolve. But since the Trustees did not have that much confidence in their estimates, they decided to shorten the forecasting period to 75 years. Yet even they agreed that including all future years was the appropriate choice in theory.

Today, retirement benefits, however, are now indexed for prices after a person reaches retirement. Moreover, shortly before reaching retirement, a person's Social

Security benefit is automatically increased by an additional amount to account for the real wage growth over his or her lifetime. The practical motivation for using a truncated 75-year window, therefore, no longer exists. Indeed, after a thorough investigation and discussion, the Social Security and Medicare Trustees voted in November, 2002, to begin including in their next Reports the imbalance for the Social Security program, as calculated across all future years. They will have to revisit the issue, though, for Medicare in the future, once CMS develops the ability to make their own estimates.

INCORPORATING LONG-TERM LIABILITIES INTO THE AMENDMENT

I would be delighted to work with this Committee to ensure that a balance budget amendment would focus on a liability measure that is more comprehensive than the backward-looking debt measure. I believe that the following points should be part of any amendment:

1. The Office of Management and Budget as well as the Congressional Budget Office must produce an annual report that captures the information shown in Table 1. Require that Table 1 be calculated for any proposed legislation that would materially affect its contents.
2. For budget reports generated by the OMB, establish a group of Federal Budget Trustees that replaces the current TROIKA structure. Federal Budget Trustees would be composed of six Government Trustees (Director of OMB serving as Managing Trustee; Chairman of the Council of Economic Advisor; Secretaries of Treasury, HHS, and Labor; Social Security Commissioner) as well as an *equal* number of Public Trustees (half appointed by the White House and half appointed by Congress). Each Public Trustee would serve *one* term for *six* years. Each Trustee would have one vote with any action approved by the majority. A similar structure could be implemented for budget reports generated by the CBO. Similar to the current Social Security and Medicare Trustees, the Federal Budget Trustees would be charged with deciding the underlying economic and demographic assumptions. Policy decisions, of course, would still be left to the White House and Congress, respectively.
3. By 2008, Congress must pass legislation that produces a zero Total Federal Fiscal Imbalance. All subsequent legislation cannot produce a positive Total Federal Fiscal Imbalance unless approved by $\frac{3}{5}$ of Congress by rollcall vote. Even in the case of a war or a recession, Congress must pass legislation specifying how they plan to pay for the costs in the future in order to produce a zero Total Federal Fiscal Imbalance, unless overridden by a $\frac{3}{5}$ majority.
4. After 2008, any *decrease* in the Total Federal Fiscal Imbalance On Account of Future Generations caused by policy changes must be approved by $\frac{3}{5}$ of Congress by rollcall vote. This requirement will ensure that Congress does not attempt to achieve a zero Total Federal Fiscal Imbalance by proposing unrealistic benefit cuts or tax increases on future generations. It would also make it harder for Congress to pass pay-as-you-go financed programs that hurt future generations. But, unlike a prohibition on annual unified deficits, this restriction would still allow Congress, for example, to use debt to reduce future Social Security liabilities, and it also permits using automatic stabilizers during recessions.

IN CLOSING

Currently, every State in the U.S. except one has a constitutional or a statutory restriction limiting the ability of those states to run deficits. Between 1970 and 1990, these budget rules appear to have been effective in controlling government spending in those States with the most restrictive requirements.¹ In more recent years, however, many States have effectively raided their public-employee pension funds using so-called Pension Obligation Bonds and other tricks. The evidence from the States, therefore, shows that (i) budget rules can indeed be effective in control-

¹See, for example, James M. Poterba, "State Responses to Fiscal Crises: The Effects of Budgetary Institutions and Politics." *Journal of Political Economy*, Vol. 102, No. 4. (Aug., 1994), pp. 799–821. Also see Henning Bohn and Robert P. Inman, "Balanced-Budget Rules and Public Deficits: Evidence from the U.S. States." *Carnegie-Rochester Conference Series on Public Policy*, 45 (1996), pp. 13–76.

ling spending but (ii) these rules must be specified in a way to prevent manipulation.

Similarly, a federal balanced budget amendment to the U.S. Constitution could be effective in controlling the federal government's spending. But unless the scope of H.J. Res 22 is expanded to include all of the government's future liabilities beyond debt service, H.J. Res 22 is open to the same manipulation by future members of Congress. As shown earlier, the debt held by the public is a backward-looking measure that misses over nine-tenths of the burden that must be paid in the future in the form of tax increases, benefit cuts, or both. Moreover, by focusing on this traditional but narrow debt measure, H.J. Res 22 could make it harder to reduce these other liabilities unless the scope of H.J. Res 22 is explicitly expanded to include them.

The time for recognizing these liabilities could not be more appropriate. We have seen in the past year how dubious private-sector accounting hides large cash flow shortfalls for a period of time, only to be revealed later at a great loss to pensioners and other shareholders. Congress and the President responded by passing the Sarbanes-Oxley Act of 2002. The federal government now needs to lead by example by getting its own books into shape as well.

Fortunately, some members of the Administration are indeed taking notice. For example, in a November 14, 2002 speech in Columbus, Ohio, Treasury Undersecretary Peter Fisher argued that "we need to bring this forward-looking understanding out of the shadows. We need to shine the same spotlight on it that the annual deficit and total debt receive in our government's budget rituals." Both The Office of Economic Policy at the U.S. Treasury and OMB are now actively engaged in studying ways to more properly account for the federal government's future liabilities. Also, as mentioned earlier, the Social Security and Medicare Trustees recently voted to show longer-term shortfalls for the Social Security program in their annual report, although they have not yet taken up the matter for Medicare. Finally, Alan Greenspan has recently endorsed reforming the budget to account for future liabilities. But, until future shortfalls are properly documented and become the primary basis of analyzing policy, reforms that address the nation's \$43.4 trillion (and growing) imbalance could remain on hold.

So, in sum, I strongly applaud the efforts of supporters of H.J. Res 22. I urge them, however, to go even further and expand the scope of H.J. Res 22 to include all of the federal government's liabilities besides just debt service.

Kent Smetters served as Deputy Assistant Secretary of Economic Policy at the U.S. Treasury from June 2001-September 2002 where he worked on budget reform, Social Security reform, and coordinated The Social Security and Medicare Trustees Working Group that reformed the annual Trustees' Reports. He returned to The Wharton School in September, 2002. He can be reached by email (smetters@wharton.upenn.edu) or by phone (215-898-9811).

Table 1: Fiscal Imbalance - Present Values in Billions of Constant 2002 Dollars*							
	2002	2003	2004	2005	2006	2007	2008
Imbalance in Social Security	7,022	7,204	7,436	7,692	7,967	8,258	8,569
On Account of Living and Past Generations†	8,701	8,871	9,097	9,347	9,617	9,904	10,212
Future Benefits less Taxes of Living Generations Trust Fund	10,030	10,327	10,688	11,089	11,516	11,966	12,442
On Account of Future Generations††	-1,329	-1,455	-1,591	-1,742	-1,899	-2,062	-2,230
	-1,680	-1,668	-1,661	-1,655	-1,650	-1,646	-1,644
Imbalance in Medicare (Parts A and B)	34,654	35,545	36,629	37,805	39,029	40,307	41,651
On Account of Living and Past Generations†	15,401	15,960	16,628	17,352	18,103	18,888	19,712
Future Benefits less Taxes of Living Generations Trust Fund	15,669	16,239	16,931	17,679	18,461	19,274	20,127
On Account of Future Generations††	-268	-278	-303	-327	-358	-386	-415
	19,253	19,585	20,001	20,453	20,926	21,419	21,939
Imbalance in the Rest of the Federal Government†††	550	676	753	864	1,005	1,153	1,310
Excess Future Outlays over Revenues	-4,587	-4,851	-5,134	-5,323	-5,482	-5,609	-5,736
Future Outlays	80,676	81,701	83,161	84,780	86,503	88,307	90,202
Future Revenues	-85,263	-86,552	-88,295	-90,103	-91,985	-93,917	-95,938
On Account of Living Generations	-32,596	-33,273	-34,141	-34,997	-35,885	-36,781	-37,698
On Account of Future Generations	-52,667	-53,278	-54,154	-55,106	-56,100	-57,136	-58,240
Liability to Social Security and Medicare Trust Funds	1,597	1,734	1,894	2,069	2,256	2,448	2,644
Debt Held by the Public	3,540	3,793	3,993	4,119	4,231	4,314	4,402
Total Federal Fiscal Imbalance	42,225	43,425	44,817	46,361	48,001	49,718	51,530
Memo Items:							
Year-to-Year Change in Fiscal Imbalance	--	1,200	1,392	1,544	1,640	1,717	1,812
Fiscal Imbalance as % of PV of (Unreaped) Payroll	15.9	16.0	16.3	16.5	16.8	17.1	17.4
Fiscal Imbalance as a % of PV of GDP	6.2	6.2	6.3	6.4	6.5	6.6	6.7

† Those born 15 years ago and earlier. In the year 2002, for example, this category includes people born before 1988.

†† Those born 14 years ago and later. In the year 2002, for example, this category includes people born during 1988 and later.

††† Does not include general-revenue transfers for Medicare Part B since these are not included in the imbalance shown for Medicare.

Source: Gokhale and Smetters, Federal Reserve Bank of Cleveland Policy Discussion Paper, 2003.

Mr. CHABOT. Thank you, Dr. Smetters.
Mr. Kogan?

**STATEMENT OF RICHARD KOGAN, SENIOR FELLOW,
CENTER ON BUDGET AND POLICY PRIORITIES**

Mr. KOGAN. Thank you, Mr. Chairman, Mr. Nadler. It's a pleasure to be back to the House of Representatives, even as an outsider.

I have 8 points that I'd like to make in my testimony. I'll try to get through them very briefly. To supplement my testimony, however, I've attached two reports that the Center on Budget and Policy Priorities issued in 1997 and a series of 11 graphs, which I've attached. With your permission, Mr. Chairman, I'd like them introduced into the record.

Mr. CHABOT. Without objection.

Mr. KOGAN. The graphs and charts bear on many of the statements that the Members and the witnesses—

Mr. SCOTT. Do we have these?

Mr. NADLER. We have your four pages of testimony, but that's it.

Mr. KOGAN. I believe copies of my testimony are in the worst possible place, which is over there, rather than in front of you.

Mr. CHABOT. We'll hold your time. We'll give you an extra however long it takes to pass these out.

Mr. KOGAN. Thank you.

Mr. CHABOT. Okay. You can proceed.

Mr. KOGAN. Thank you, Mr. Chairman.

First of all, I'd like to mention this amendment is far more restrictive than any rules placed on families, States, counties, or businesses. No State, local government, family, or business is required to prohibit borrowing under all circumstances. Every family borrows to finance the purchase of a home. That's what a mortgage is. Every State, city, or county borrows to pay for school, road, or hospital construction. Growing businesses borrow to finance new capital construction.

Worse yet, this amendment would prohibit dipping into past savings. Under this amendment, this year's costs must be covered entirely by this year's income. This would mean that a family in retirement could not draw on its savings but would, rather, have to draw on its income in that year. It would mean that a family could not draw on its savings to send a child to college. It would mean that a business could not use retained earnings from previous years to invest and grow. It would mean a State could not use a rainy-day fund. This is far too restrictive.

Second, such a restrictive amendment is poor public policy. The Administration is right when it says that during a recession or during a war or during some major national emergency, it would be wrong to insist on balancing the budget in the short run. Among other things, particularly in a recession, it would kick the economy when it was down; it would withdraw purchasing power. Whether we withdrew purchasing power by raising taxes or by cutting spending, it would push the economy even more into a bad situation.

In Graph Number 1, you can see that from 1929 to 1933, when we valiantly tried to balance the budget by raising taxes and cutting spending, we created the Great Depression.

Third, the experience of the last 20 years illustrates that setting dollar targets of the outcome, which was what this does—this requires a balanced budget each year—is not as good a method of trying to keep budgetary controls and budgetary restraint as setting dollar targets for the cost of legislation. The pay-as-you-go rule said that all tax cuts had to be offset, that all entitlement increases had to be offset, that appropriations were capped. It did not say what the outcome had to be, but by following the pay-as-you-go rule and the discretionary caps for 8 years, we also ended up with a balanced budget, something that we did not do under Gramm-Rudman.

Fourth, every State has a political system in which the Governor is exceptionally powerful compared with the legislators. In part, this is needed so that Governors can deal with budgets when they fall out of balance in the middle of the term. I prefer having the House of Representatives and the Senate be powerful, not the President. I don't want this institution to become merely a rubber stamp.

Fifth, it's possible—and I think this Committee particularly is well suited to look at the issue—that a balanced budget constitutional amendment, being a constitutional amendment, has the force of law, force of super law. If it is to be meaningful, if it isn't merely to be something that the courts will set aside and say it's a political question or a non-justiciable issue, then it would have to be enforced. If Congress did not waive the balanced budget requirement by supermajority, did not raise taxes by majority vote, did not cut spending by majority vote, then the courts would have to intervene. We have no idea whether they would do this or how they would do this, but one of my attachments went through all of the possibilities that I could imagine at the time, for example: a court-ordered surtaxes; court-ordered benefits cuts; court-ordered enactment of tax increases or spending cuts that the President had vetoed; court-ordered enactment of tax increases or benefit cuts that Congress had designed but failed to pass; court-ordered invalidation of appropriations bills, entitlement bills, and tax cuts, in reverse chronological order; or maybe contempt citations. We should consider that seriously if we want to put a rule, no matter how good a rule, into the Constitution.

Let me sum up quickly. I'm sorry that I'm so slow.

Sixth, there are wide varieties Congress could use to evade the balanced budget amendment if it wanted to—we learned all about them during the Gramm-Rudman I and Gramm-Rudman II years: offloading Federal programs onto GSEs; timing shifts; contingent liabilities; and my particular favorite, unfunded mandates. Ultimately, this bill could be known—if it were enacted, could be known as the Unfunded Mandates Act of 2003.

Seventh, there's the public policy question. I've said that balanced budgets is poor economics under certain circumstances, in my opinion. The public policy question suggests and Mr. Smetters' testimony suggested that in the current circumstances, with the overhang of the baby-boomer retirement, we should be running sur-

pluses. And I agree, were it not for the recession. When we're out of the recession, I think we should be running surpluses in the current situation. But situations change. We don't always have baby-boomer overhangs. We don't always have a low national private savings rate. We should not put into the Constitution an operational rule that might be right for current circumstances but is not a permanent matter of law, like the right to free speech.

And, finally, this public policy discussion and the disagreement on this panel and on this Committee illustrates that this is fundamentally a democratic question, not a constitutional question. To make it a constitutional question implies that people with some public policy viewpoint will have fewer legal rights; they will have their votes counted less than other people's votes. Nowhere in the Constitution does that exist, except that Members of Congress are subservient to the President when it comes to counting votes because he gets to enact vetoes that is hard for you to override. No public policy position in the Constitution is favored over any other public policy position.

[The prepared statement of Mr. Kogan follows:]

PREPARED STATEMENT OF RICHARD KOGAN

The question before us today is whether the Constitution should be amended to require that the federal budget be balanced every year. To supplement my testimony, I have attached a report the Center on Budget and Policy Priorities issued in 1997, the last time Congress debated a constitutional amendment that would have mandated a balanced budget every year.

First, let me very briefly explain how restrictive the text of the current proposed amendment really is. By requiring that each year's expenditures be covered by that year's income, the amendment would preclude borrowing, even during times of unusual duress, such as wars or recessions; moreover, it would effectively preclude saving for the future, because the money saved in the present *could not be used* to cover future costs.

No state or local government, no family, and no business is required to operate under such restrictions. Every family borrows to finance the purchase of a house—that's what a mortgage is—and many borrow to finance higher education; every state, city, or county borrows to pay for school, road, or hospital construction or parkland acquisition; and most growing businesses borrow to finance new capital construction or acquisition.

Moreover, the amendment would prohibit dipping into past savings, since under the amendment *this* year's costs must be covered entirely by *this* year's income. Yet most families dip into savings to pay for a child's college education and certainly to cover costs during retirement; every state that "balances" its budget in fact can use its rainy day fund to help cover costs during a recession; and businesses often use retained earnings from prior years to finance expansions. This amendment makes saving for the future pointless because the saved money could never be used: it would be unconstitutional to use rainy day funds, or to use the accumulating assets in the Social Security trust fund to help cover the costs of the baby boomers' retirement. In effect, it would prohibit this generation from building up public savings, or paying down public debt, for the express purpose of providing assets to make the burden on future generations lighter.

Second, such a restrictive amendment is truly inferior economics—it would require the government to reduce consumption during recessions, thus slowing the economy even further, throwing more people out of work, and in some cases running the risk of turning a recession into a full-blown depression. This Administration is exactly right when it says that Congress should not raise taxes during a recession. By the same token, Congress should not cut public spending during a recession. Either action takes purchasing power out of the hands of consumers at exactly the wrong time. In effect, the amendment would ban automatic stabilizers, such as unemployment compensation. Likewise, the amendment would give the seal of approval to over-stimulating the economy during an inflationary boom, risking an acceleration of inflation that could be seriously destabilizing.

Even though the states operate under much less restrictive rules, the actions states are forced to take during the current recession—raising taxes and cutting education, health care, social services, and infrastructure—are harming the economy and slowing the recovery; this fact makes it doubly important to maintain robust automatic stabilizers at the federal level.

Third, the experience of the last twenty years illustrates that setting targets for a budget surplus, or deficit, or balance, is not workable but that limiting the cost of legislation works far better. From the mid 1980s through 2000, three Presidents and many Congresses gradually worked to undo the damage of the first half of the 1980s, mostly by taking hard votes but partly by writing statutory rules or rules of House and Senate procedure providing guidance that Congress very largely followed. Especially after Gramm-Rudman-Hollings I and II were replaced by the far more workable system of appropriations caps and a rule of budget neutrality for tax and entitlement legislation—the so-called PAYGO rule—the budget moved from deficit to surplus. The relative failure of GRH I and II is important because those laws, like the amendment before us, attempted to set a specific fiscal target for the budget. The relative success of caps and the PAYGO rule illustrates that targeting the *cost of legislation*—rather than the overall level of the surplus or deficit—is a far superior road to the desired result. If this subcommittee is truly concerned about future deficits, it should work with the Budget and Rules Committees and the Administration to re-impose reasonable appropriations caps and the rule of budget neutrality. More importantly, Members should eschew any new tax cuts or entitlement increases, such as a prescription drug benefit, except to the extent that they are fully offset.

Fourth, almost every state has a political system in which the governor is inherently much more powerful than the legislators, most of whom are part-time legislators with other jobs. This is a logical consequence of allowing governors great freedom to implement or not implement elements of the budget, depending on circumstances, given various state balanced-budget requirements. By analogy, this amendment could lead to a vast strengthening of presidential powers and a weakening of congressional authority. This worries me; Congress is not very efficient, but its very inefficiency was deliberate, to minimize hasty and ill-considered actions. This has worked well for a few centuries, and I see no need to fundamentally change the balance of power.

Fifth, it is possible that power won't be shifted from the Congress to the President, but rather from the Congress and President to the courts. My guess is that the courts would find the amendment unenforceable, making this exercise mere show. But if the courts believed the Constitution prohibited an unbalanced budget except to the extent Congress voted by supermajority to approve it, then the risks of this amendment would be profound. We have absolutely no way of knowing what a court would do to balance the budget when Congress refused, or more likely, when the budget fell out of balance despite Congress' best efforts. I have attached a paper raising many of the legal avenues that can be imagined—court-ordered surtaxes or benefit cuts; court-ordered enactment of tax increases or spending cuts that the President had vetoed; court-ordered enactment of tax increases or benefit cuts that Congress had designed but had been defeated; court-ordered invalidation of appropriations bills, entitlement increases, and tax cuts; or contempt citations.

Sixth, whether the Courts will enforce the balanced budget amendment or not, there are a wide variety of gimmicks Congress can use to evade it. Among these are borrowing by another name, e.g. lease-purchase contracts; paying for costs through contingent liabilities, e.g. loan guarantees or insurance contracts; timing shifts that move costs from the present to the future, e.g. back-loaded IRAs and the new so-called "savings account" proposals; off-loading federal programs onto nominally independent "government-sponsored enterprises" such as REFCORP; and the perennial favorite, unfunded mandates on states, localities, businesses, and individuals. In fact, if this amendment were enacted, it could ultimately be referred to as the Unfunded Mandates Act of 2003.

Seventh, let us leave aside the constitutional question for the moment and ask the public policy question. *Should* the Federal Government aim to balance its budgets? Clearly not during a recession, as I have said. How about on average over the business cycle? Even here, I think that a balanced budget would be the wrong general target. A better target would be to run surpluses, not balance, for the remainder of the decade, in an attempt to pay off much or all of the debt before the baby boom generation retires. The purpose, in this case, is to reduce or eliminate future federal payments for interest on the debt and thereby allow future tax revenue to be used entirely to pay for public benefits and needs, such as Social Security or defense. Because the federal government is a major supporter of people in retirement and because there will be a bulge in retirees at the end of the decade, federal costs

will inevitably grow starting in about a decade. If we can reduce federal costs for interest at the same time that the federal costs of Social Security and Medicare are growing, we can afford *part* of the increased costs of Social Security and Medicare without having to raise taxes.

Thus, the question is whether we should pay somewhat higher taxes now (when I am paying them) in order to pay off the debt, or wait a decade or more to raise taxes, when I will be retired but my children will be paying taxes. It seems to me only fair that I and my generation be willing to reduce the tax burden on my children and their generation by being willing to pay somewhat higher taxes now so that we can reduce or eliminate the debt before we retire.

In short, if we are discussing budget policy rather than artificial budget rules, we happen to be in one of the rare decades in which surpluses are generally a better goal than balanced budgets. A surplus doesn't mean we are collecting "extra, unneeded" taxes; it merely means that the taxes we are collecting now will be needed for our future retirement.

This policy discussion illustrates one reason the constitutional amendment is a bad idea: circumstances change over time. During some decades, balance might be generally a good goal, but one should also take into account the private saving rate and needs of the future. In the particular circumstance we are in, where we can predict with certainty that the need for public expenditures will increase in the future compared with current needs, it makes sense for the nation to save for the future by paying down debt. Unlike the right to free speech or the right to a lawyer (which can be viewed as a permanent right), the appropriate general target for fiscal policy depends on circumstances, so it is inherently wrong to enact any such target into the Constitution.

Finally, a constitutional balanced budget amendment is fundamentally unworthy of a democracy. Our Constitution currently allows *every* public policy question—war versus peace, the levels and types of taxes, the purposes and amount of public expenditures, what constitutes a federal crime, whether to admit a new state to the Union—to be decided by majority vote. (True, the rights of individual citizens are protected against a majority decision to discriminate, and it takes a $\frac{2}{3}$ vote to override a presidential veto. But these aspects of the Constitution do not favor one set of public policy preferences over any other.) Under a constitutional Balanced Budget Amendment, citizens with one preference on public policy (let us say, those who favor a tax cut or an increase in unemployment benefits during a recession, or merely allowing revenues to fall naturally and the normal unemployment compensation law to continue to operate) would have fewer legal rights than citizens with the opposite viewpoints because they would need more votes to win. This is so inherently unfair that it should be rejected out of hand. Equal legal rights, including the right to have our votes count the same amount as anyone else's votes, is fundamental.



Revised January 28, 1997

The Balanced Budget Constitutional Amendment: An Overview

By Robert Greenstein

Strong action is needed to reduce the long-term deficit. But a constitutional amendment requiring a balanced budget is not a sound way to achieve this goal. It is neither necessary nor wise, from the standpoint of keeping the economy strong, to have the Constitution mandate that the budget never be in deficit in any year. This analysis examines problems inherent in the constitutional amendment that will come to the House and Senate floors early in 1997.

The proposed constitutional amendment could weaken the economy by hastening or deepening recessions. It also would heighten the risk of a government default; once that occurred, even if it lasted only a few days, Treasury borrowing costs could rise. In addition, the amendment would undermine the principle of majority rule on which our system of government rests. Still another concern is that the amendment is likely to limit unduly public investments with long-term payoffs. Also, by making it harder to raise revenues — and even to close unproductive tax loopholes — than to cut programs, the amendment would tilt policy in favor of the wealthy and well-connected over the middle class and the poor. Finally, while many people point to state balanced budget requirements as evidence that a federal amendment is workable, these state provisions differ significantly from the proposed federal requirement.

Amendment Could Damage the Economy

The proposed constitutional balanced budget amendment would require the budget to be balanced (or in surplus) every year, regardless of whether economic growth is strong or weak. This is highly problematic. In years when growth is sluggish, revenues rise more slowly while costs for programs like unemployment insurance increase. As a result, the deficit widens. Under a balanced budget amendment, more deficit reduction thus would be required in periods of slow growth than in times of rapid growth.

This is precisely the opposite of what should be done to stabilize the economy and avert recessions. The constitutional amendment consequently risks making recessions more frequent and deeper. In the period from 1930 to 1933, for example, Congress repeatedly cut federal spending and raised taxes, trying to offset the decline in revenues that occurred after the great crash of 1929. Yet those spending cuts and tax increases removed purchasing power from the economy and helped make the downturn deeper; they occurred at exactly the wrong time in the business cycle.

This is why a balanced budget requirement is called “pro-cyclical.” It exacerbates the natural

economy and helped make the downturn deeper; they occurred at exactly the wrong time in the business cycle.

This is why a balanced budget requirement is called “pro-cyclical.” It exacerbates the natural business cycle of growth and recession. It also is why most economists who favor tough deficit reduction measures strongly oppose a constitutional balanced budget amendment.

In testimony before the House Budget Committee in 1992, one of the nation’s most respected economists, then-Congressional Budget Office director Robert Reischauer, made a number of these points. “[I]f it worked,” Reischauer warned, “[a balanced budget amendment] would undermine the stabilizing role of the federal government.” He noted that the automatic stabilizing that occurs when the economy is weak “temporarily lowers revenues and increases spending on unemployment insurance and welfare programs. This automatic stabilizing occurs quickly and is self-limiting — it goes away as the economy revives — but it temporarily increases the deficit. It is an important factor that dampens the amplitude of our economic cycles.” Under the constitutional amendment, Reischauer observed, these stabilizers would no longer operate automatically.¹

The amount of budget-cutting or revenue-increasing that would be needed to balance the budget during a recession would be large. CBO and OMB analyses indicate that a moderate recession can cause a fiscal imbalance equal to two percent of the Gross Domestic Product; by 2002, a budget that would be balanced in a normal economy would result in roughly a \$200 billion deficit if the economy were in a moderate recession.

Amendment proponents note that the amendment would allow the balanced budget requirement to be waived for a particular year if three-fifths of the full membership of each

chamber of Congress so voted. But it is unlikely a three-fifths majority would emerge *until after the economy was already in a recession and considerable economic damage had been done*. The Office of Management and Budget and the Congressional Budget Office have *rarely, if ever, forecast a recession before one started*, and we usually do not know we are in a recession until the downturn is at least several months old. The largest deficit reduction measures would likely be taken in years when the economy was weakening but not yet in recession. Yet such actions could tip a faltering economy into recession or make an ensuing recession deeper.

Adding to this problem, a three-fifths majority could be particularly difficult to garner if a recession were regional rather than national, as is usually the case at least at the start of economic downturns. It might well be impossible to obtain three-fifths majorities until a recession had spread to a substantial majority of states and Congressional districts.

Past recessions have started in some regions and taken time to spread; they also have hit some regions much harder than others. In the most recent recession, for example, New England and the mid-Atlantic states began experiencing declines in employment by the second quarter of 1989, a full year before employment turned down in most of the rest of the country. If rising unemployment insurance costs and falling revenues in several regions pushed the federal budget out of balance, would enough Members of Congress from states where economic problems are not yet evident be willing to raise the debt limit and allow a deficit?

Economic downturns also last much longer in some regions than others. In the last recession, employment declines lasted two to four years in California and much of New England and the mid-Atlantic states, while a number of other states recouped their employment losses in a matter of months. In the recession of the early 1980s, this

pattern was reversed; that downturn was sharpest and lasted longest in the Midwest and South. The regional patterns that characterize economic downturns raise serious questions about the efficacy of the three-fifths requirement.

**Former CBO Director
Robert Reischauer On the
Balanced Budget Amendment**

"A balanced budget rule could make it even harder to conduct discussions of policies on their own merits, and could lead to distortions of policies simply to meet budget goals...[In addition,] burdens might be shifted to state and local governments (through unfunded mandates) or to the private sector (through regulation or trade policy) even when the public good would be enhanced by keeping the programs at the federal level. And spending cuts that would result in immediate savings most likely would be made first, without much consideration of the long-run merits of the programs. Major deficit reduction surely entails spending cuts, but the reductions should be based on the long-run effectiveness of the benefits provided, not on meeting a rigid annual dollar target."^{*}

^{*} Statement of Robert D. Reischauer, *op. cit.*

Amendment Could Increase the Risk of Government Default

The amendment envisions setting the debt limit so the government can no longer borrow funds and requires a three-fifths vote of both houses to raise the debt limit. This aspect of the amendment would be likely both to make crises where a default threatens more frequent and to heighten the risk that a default will actually occur.

Until now, it has taken a simple majority of Congress to raise the debt limit, and such a majority has proved difficult to amass on a number of occasions. Under the constitutional amendment, the votes of three-fifths of the members of both houses would be needed. Securing a three-fifths vote to raise the debt limit could often prove excruciating.

This is of particular concern, because there are likely to be a number of years when a budget that is balanced at the start of the year slips out of balance during the year for reasons beyond policymakers' control, such as slower-than-expected economic growth, smaller-than-expected revenue collections, or a natural disaster. When that occurs with part of the fiscal year gone, the budget cuts or tax increases needed to balance the budget for the fiscal year could be precipitous, especially since they would need to be concentrated in the remaining months of the year.

Suppose, for example, government outlays turn out to be two percent higher than the CBO estimate at the start of the year, while revenues turn out to be two percent lower. A budget initially thought to be in balance would develop a deficit of about \$30 billion. If the \$30 billion deficit was recognized part way into a fiscal year, it would be difficult to address. As a point of comparison, the balanced budget plan embodied in the budget resolution the 104th Congress

passed last year would have achieved only \$27 billion in savings in fiscal year 1997, and it had *a full 12 months* in which to realize those savings.

In circumstances such as these, it may prove impossible to secure agreement on the budget cuts or tax increases that would be required to balance the budget, particularly if such measures would further slow a weakening economy. But the alternative — enduring a deficit for the year in question — entails borrowing funds, and that would require a three-fifths vote. If a three-fifths majority to raise the debt limit and prevent a deficit could not be secured, a default crisis would loom.

The amendment exacerbates this problem by outlawing the principal measures the Treasury Department used to avoid default in late 1995 when it took policymakers months to resolve the impasse that precipitated that year's budget crisis and government shutdown. Default crises thus would both be more likely to occur and harder to resolve.

CBO has warned that even a default of a few days could have lasting consequences, because it could erode confidence in the binding nature of financial obligations of the U.S. Government and raise government costs as a result. The national debt is financed at relatively low interest rates because those who purchase government securities are confident they will be repaid in full and on time. Similarly, federal defense and highway contracts are less costly than they would be if contractors lacked confidence of being paid in full and on time. If a default occurred, even if only for a brief period, confidence in the U.S. Government's ability to make payment in full and on time could be shaken, and the cost of borrowing and government contracts could rise.

Undermining Majority Rule

The requirement that the budget must be balanced at all times unless three-fifths of Congress agree to waive this requirement would enable minority factions in Congress to block actions favored by a majority of Congress and the President. It would empower such factions to exercise an unprecedented degree of leverage over national economic and fiscal policy.

Minority factions could withhold support for a balanced budget waiver and an increase in the debt limit when a recession loomed, threatening to plunge the government and the economy into turmoil and the Treasury into default unless they were granted major policy concessions. Minorities willing to threaten turmoil and disruption to achieve their ends could gain unprecedented power. For example, one can envision a minority insisting on large tax cuts that do not expire when the recession ends (with the minority claiming the tax cuts would ignite economic growth) as its price for waiving the balanced budget requirement during a downturn. That, in turn, would require still deeper cuts in basic programs in subsequent years to offset the revenue loss resulting from the tax cut.

Several of the authors of the balanced budget amendment have acknowledged this problem. In a recent paper, Reps. Dan Schaefer and Charles Stenholm, the lead House sponsors of the amendment, state: "Under current law, Members of Congress not infrequently have rounded up 50 percent plus one of the Members of the House to threaten to push the government to the brink of insolvency unless a pet amendment is added to this must-pass legislation" [i.e., legislation to raise the debt limit]. Schaefer and Stenholm admit the balanced budget amendment would, in their words, have the effect of "lowering the 'blackmail threshold'...from 50% plus one in either body to 40% plus one..."² They agree their amendment would make such extortion easier.

They defend this feature of the amendment with the argument that by making extortion easier, the amendment would increase pressure on Congress and the White House to agree to a balanced budget in the first place. But they gloss over the critical point that even when a balanced budget is approved, a deficit of tens of billions of dollars can materialize within a short period of time due to factors beyond policymakers' control. When that occurs and restoring budget balance for the year is not feasible or wise, the government can face a choice between failing to act — and thereby risking default — and authorizing a deficit and a rise in the debt limit. In such circumstances, minority factions will enjoy substantially enhanced powers of extortion.

Shifts in the Balance of Power

The amendment is likely to lead to major shifts in the balance of powers that has served our nation for more than 200 years. Suppose the budget slips out of a balance during a year, Congress and the President can not agree on budget cuts or tax increases large enough to restore balance, and three-fifths of Congress do not agree to waive the balanced budget stricture and raise the debt limit. In such an event, the President or the courts might take matters into their own hands.

The courts might decide how the constitutional amendment would be enforced. They might order cuts themselves. Alternatively, they might rule that the amendment gives the President unprecedented authority to cut programs unilaterally. Such authority would go far beyond line-item veto authority, which Congress can override and which applies only to recently enacted legislation.

A Constitutional Amendment Isn't Needed

Contrary to popular mythology, the nation's track record in limiting deficits to modest levels is, overall, a good one. Furthermore, a recent Congressional Budget Office analysis shows that if deficits are kept to modest levels in the decades ahead, the economy will grow at a solid rate and future generations will be better off than current generations are.

Consider the following. Over the past decade, Congress and several administrations have succeeded in sharply lowering the high deficits of the early 1980s; the deficit has declined from 5.1 percent of the Gross Domestic Product in fiscal year 1986 to 1.4 percent in fiscal year 1996. In addition, a bipartisan agreement to balance the budget by 2002 is likely this year. The oft-sounded claim that policymakers will only balance the budget if a constitutional amendment requires them to do so is on the verge of being proven incorrect.

Nor is the last decade atypical. For more than 200 years, the nation strove to keep deficits small or non-existent, except during wars or recessions.³ The only other time in the past 200 years that the government has adopted policies that sharply widened the deficit was during the early Reagan years, and those policies were adopted in the mistaken hope that the 1981 tax cuts would generate so much economic growth that deficits would not rise. When it became clear this experiment was not working, Congress and three administrations spent the rest of the 1980s and 1990s pushing the deficit genie back into the bottle. The deficit, measured as a percentage of GDP, has shrunk more than 70 percent over the past decade.

This progress was achieved without a constitutional requirement. Evidence is lacking that the nation needs such an amendment, with all

the risks it would entail, to pursue responsible fiscal policies and avoid large, damaging deficits.

Moreover, a recent Congressional Budget Office analysis punctures the notion that budget balance must be attained in most or all years. In a report issued in 1996, CBO examined what would happen if deficits through 2030 are held to approximately 1.5 percent of the Gross Domestic Product or about \$110 billion a year in 1996 terms.⁴ (This is about the same level as the deficit in 1996, which equaled 1.4 percent of GDP, or \$107 billion.) CBO projected that under such a policy, total income per person would *grow 41 percent* between now and 2030, after adjusting for inflation. In other words, with moderate deficits of this size, the U.S. economy would continue to grow and living standards would rise. CBO also projected that if the budget were *balanced* each year through 2030, average income per person would rise 43 percent, *nearly the same amount*.⁵ Citing these findings, CBO has noted that “...sustainable policies do not require balanced budgets” if deficits are kept to moderate levels.⁶ CBO’s finding that there would be little difference in average living standards over the next 35 years under a balanced budget approach and a policy of moderate deficits illustrates the fallacy of the claim that the balanced budget amendment is needed to save us from an economic meltdown and a deterioration of the living standards of future generations.

Public Investments with Long-Term Payoffs

Public investment that improves long-term productivity growth — such as certain investments in education, infrastructure, research and development — can boost long-term economic growth. This type of public investment complements the increased private-sector investment that results from lower deficits. But a constitutional amendment requiring a balanced budget every year would likely result in less such public investment.

The constitutional amendment would largely deny to the federal government a basic practice that most businesses, families, and state and local governments use — judicious borrowing to finance investments with long-term payoffs. Businesses borrow to invest in new plant and equipment that help them grow. A business that failed to modernize because it could not borrow would soon be left behind. Families borrow to finance home purchases and college education. State and local governments borrow to finance road construction, the building of new schools, and similar capital projects; they typically balance their *operating* budgets, not their overall budgets.

Under the proposed constitutional amendment, however, the federal government could borrow to finance needed investment only if three-fifths of the members of both houses agreed to waive the balanced budget requirement and authorize the borrowing to take place. Over time, the likely result would be less public investment.

This is particularly true because the proposed amendment would impose a rigid requirement that the overall budget, including Social Security and Medicare, be balanced every year, even when the baby boom generation is in old age. For total

federal expenditures including Social Security and Medicare to equal federal receipts year after year during those years would likely require shrinking public investment to a level unhealthy for long-term economic growth.

Families and states address matters such as these by accumulating savings or reserves that can be drawn down when the need arises. For example, families accumulate savings that are later used to pay for college tuition, and many states have “rainy day” or reserve funds that can be drawn upon when additional state expenditures are needed. But the proposed federal constitutional amendment bars such practices; it would prohibit expenditures in any year from exceeding the revenue the federal government collects in that year, regardless of whether the government had accumulated reserves in prior years. The requirement that the constitutional amendment would impose in this area is akin to requiring a family to pay for a child’s college tuition for a given year *entirely out of that same year’s earnings*, rather than allowing the family to save money for this purpose in prior years or to borrow money for college that is paid back after the child graduates and begins to earn money. Businesses, families, and state and local governments do not impose upon themselves the fiscal straightjacket that the constitutional amendment would place on the U.S. government.

Amendment Tends to Favor the Wealthy Over Other Americans

While the balanced budget amendment does not dictate any particular approach to deficit reduction, it increases the likelihood that the fiscal policies adopted in coming decades will favor the well-off at the expense of poor and average

Americans. It does this because it would alter Congressional voting procedures that have existed for more than 200 years and make it harder to raise revenues than cut programs.

Under current law, legislation can pass by a majority of those present and voting on either a roll call vote or an unrecorded “voice vote.” The balanced budget amendment, however, would require that legislation raising taxes be approved on a roll call vote by a majority of the *full membership* of both houses, rather than a majority of those *present and voting*. Spending cuts, by contrast, would continue to require only a majority of those present and voting and could be passed on a voice vote.

The amendment thus would require more votes to curb special interest tax breaks — such as tax subsidies for the oil and gas industries and other tax breaks considered “corporate welfare” — than to cut programs such as Medicare, veterans’ benefits, education, environmental programs, and assistance for poor children. Moreover, deficit reduction measures that contain a mix of program cuts and revenue increases — as did virtually every deficit reduction package enacted between 1982 and 1993 — would require more votes to pass than deficit reduction measures consisting solely of program cuts with no revenue measures whatsoever.

This raises significant equity issues. Wealthy individuals and large corporations receive most of their government benefits through tax subsidies, or “tax expenditures” as they are sometimes called. By contrast, low- and middle-income families receive most of their government benefits through programs. A constitutional amendment that makes it harder to reduce tax subsidies than to cut programs tends to favor the affluent over Americans of lesser means.

Tax expenditures are essentially spending programs that operate through the tax code by reducing the tax liability of particular taxpayers.

In testimony in 1994, Federal Reserve Board Chairman Alan Greenspan referred to these measures as “tax entitlements” because they entitle those who qualify for them to government subsidies provided in the form of a special tax reduction. Tax expenditures cost more than \$400 billion in forgone revenue in fiscal year 1995, more than the government spends on defense or Social Security.

This aspect of the amendment has particular implications for the elderly. Social Security offices lack information on the current incomes of Social Security and Medicare beneficiaries. As a result, proposals to trim Social Security or Medicare benefits for the well-off elderly while shielding the low- and average-income elderly usually entail using the tax code. For example, the provision of the “Blue Dog” budget (a budget developed by a group of conservative and moderate House Democrats) that would increase Medicare premiums for affluent seniors uses the tax code to collect the added premium charge. Under the constitutional amendment, such a measure would require more votes than an across-the-board increase in Medicare premiums for *all* beneficiaries or an across-the-board Social Security cut.

How significant is the requirement that a measure which raises revenue must secure the votes of a majority of the full membership of both Houses? Might such a rule ever come into play? The answer is “yes.” Had this rule been in effect in 1993, the 1993 Clinton budget would have failed. It initially passed the Senate 50-49; the conference report subsequent passed 51-50 with the Vice-President breaking the tie. Under the amendment, both such votes would have resulted in the budget’s defeat.

Amendment Could Adversely Affect Younger Generations

Despite claims that the constitutional amendment is needed to protect our children, the amendment could work *against* their interests, since it would prohibit adoption of the type of fiscal policies that would treat them most equitably in coming decades. This is particularly true because of the amendment’s effects on the Social Security system.

Social Security has traditionally operated on a “pay-as-you-go” basis; in other words, the payroll taxes contributed by today’s workers finance the benefits of today’s retirees. But in coming decades, Social Security faces a large demographic bulge. There will be so many retirees when the baby boomers grow old that it will be very difficult for the workers of that period to support the retired baby boomers without a large increase in payroll taxes.

The 1983 bipartisan Social Security commission headed by Alan Greenspan recognized this problem. It moved Social Security from a pure “pay-as-you-go” system to one under which the baby boomers would contribute more toward their own retirement. The Social Security system is now building up surpluses as a result; by 2019, these surpluses will equal about \$3 trillion. After that, as the bulk of the baby boom generation moves into retirement, the Social Security system will draw down the surpluses. This is akin to what families do in saving for retirement during their working years and drawing down their savings when they retire. It is essential to keeping the burden on younger generations from growing too large when the baby boomers retire.

The balanced budget amendment, however, would undermine this approach to protecting Social Security and promoting generational equity. The amendment states that total

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government expenditures in any year — including expenditures for Social Security benefits — may not exceed total revenues collected in the same year. This effectively means that the Social Security surpluses *could not be used to ease the burden on younger generations of financing the benefit costs of the baby boomers when they retire, since those benefits costs would have to be financed in full by taxes collected from people working in those years.* That would eviscerate a central achievement of the Greenspan commission and would almost certainly lead to the imposition of heavy burdens on those whose peak earnings years are between about 2020 and 2040.

In fact, the constitutional amendment would likely precipitate a major crisis in Social Security about 20 years from now even if legislation had been passed in the meantime putting Social Security in long-term actuarial balance. The nation would face an excruciating choice at that time between much deeper cuts in Social Security benefits than are needed to make Social Security solvent and much larger increases in payroll taxes than otherwise would be required. The third and only other alternative would be to finance the Social Security “deficit” in those years (i.e., the amount by which the Social Security benefits paid in those years exceed the payroll taxes collected in those years) by raising other taxes substantially or slashing rather severely the rest of government, with the result that government could fail to provide adequately for basic services, potentially including national defense.

Given the vast numbers of baby boomers who will be retired in those years and their likely political clout, deep cuts in Social Security benefits are not probable at that time. As a result, the constitutional amendment would likely cause those working between 2020 and 2040 to have to shoulder both large increases in taxes *and* sharp reductions in basic government services. Spreading the retirement costs of the baby boomers over a longer time-frame, as the

Greenspan commission’s recommendations began to do, would be much more equitable.

Risks to the U.S. Banking System

The constitutional amendment poses a risk to the stability of the U.S. banking system. In the event of a potential banking crisis, the amendment could prevent the U.S. Government from making urgently needed deposit insurance payments if such payments would unbalance the budget, unless Congress was able either to muster a three-fifths majority to waive the balanced budget requirement or to make what could be very large cuts elsewhere in the budget on very short notice to offset the deposit insurance costs. If the government is unable to respond to a banking crisis, the guarantee that the full faith and credit of the U.S. Government stands behind the U.S. banking system will not have as much meaning; that, in turn, could have adverse consequences for financial markets. This is another reason why writing a balanced budget requirement into the Constitution, something no other major national government does, is ill-advised.

Don’t States Have to Balance Their Budgets?

Supporters of the constitutional balanced budget amendment often dismiss concerns about its impact, arguing that states balance their budgets and the federal government should also. But these allusions to state balanced budget requirements overlook six critical points made in a GAO study of state balanced budget rules:⁷

- **Many states are required to balance their *operating* budgets, not their *total***

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budgets. States typically maintain separate budgets for operating expenses and capital expenses, and the requirement for budget balance often applies only to the operating portion of the budget. This means investments in roads, bridges, school construction, and the like often are not subject to budget balancing requirements and can be financed through bonds or other borrowing measures. This is widely regarded as a sound practice at the state level because such capital investments are designed to yield long-term benefits that strengthen state economies and because such investments may be placed at a disadvantage if they have to compete for funds, under a balanced budget regime, with ongoing costs for government operations. The proposed constitutional amendment does not make such a distinction. This is one of the several reasons it differs fundamentally from, and is cruder than, the balanced budget procedures in place in many states.

- **Many states have established "rainy day" or reserve funds, which they draw upon when their budgets would otherwise be out of balance.** Nearly all states either have a rainy day fund or allow surpluses from one year to count toward balancing the budget in the next year. This enables states to save now in order to finance increased needs later. The constitutional amendment would prohibit the federal government from saving funds to finance increased needs later, due to the requirement that total federal expenditures in a year — including expenditures financed from a reserve or trust fund — not exceed the revenue collected in that same year. The federal government could neither save to

finance future needs nor borrow to pay for investments with long-term pay-offs; states, businesses, and families typically use both financing methods.

- **Many states require that the governor submit a balanced budget or that the legislature enact a balanced budget but *not* that year-end balance actually be achieved.** Such requirements recognize that developments in the economy and other circumstances beyond a state's control often push budgets out of balance. Under the constitutional amendment, such practices would be impermissible unless three-fifths of the House and Senate voted to authorize them.
- **The federal budget has a larger impact on the U.S. economy than state budgets do.** Federal fiscal retrenchment during periods of slow growth can have adverse consequences of a much greater magnitude than the effects wrought by state austerity measures. Moreover, the fact that states cut their budgets and raise taxes when the economy slows or recession hits is itself a reason the federal government should *not* follow suit. Federal counter-cyclical policies are essential during such periods to stabilize the economy and offset the drag on the economy caused by state and local retrenchment.
- **Many states allow governors to act unilaterally without legislative approval to cut spending in the middle of a fiscal year.** The President does not have this power at the federal level. Providing the President with this authority would represent a dramatic shift of power and responsibility over the

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nation's purse strings from Congress to the executive branch.

- **The large majority of states require the same number of votes to raise revenues as to cut programs.** By contrast, the proposed federal constitutional amendment would make it somewhat harder to raise revenues than to cut spending.

What About Families

Amendment supporters also frequently say that families balance their budgets, and the federal government should too. But when a family balances its checkbook, it is making sure that incoming cash — *including borrowed money* — is sufficient to cover the payments it is making, including payments on debts for such items as mortgages, cars, and student loans.

Few families balance their budgets the way the constitutional amendment would require the government to balance its budget. To do so, families would have to cover the full cost of a home they wished to buy out of that same year's income or the full cost of a child's college education out of the current year's income.

Families typically save in some years so their expenses can exceed their income in other years. They also borrow for items like a home, a new car, or a college education. If the goal is to require the federal government to act as families do with their own budgets, the constitutional amendment is not the appropriate route to follow. Moreover, if families had to budget by the rules in the constitutional amendment, that would wreak havoc on their finances and render millions unable to buy a home or car or send their children to college.

* * * * *

The deficit reduction packages enacted in 1990 and 1993, along with other measures, have made important progress in shrinking the deficit. Over the past 10 years, the deficit has declined 70 percent as a percentage of the Gross Domestic Product. A budget agreement is likely in 1997 that will eliminate the remaining deficit and balance the budget by 2002.

Further action still will be needed; health care reform with tough cost-containment measures and Social Security reform to place the system in long-term actuarial balance also will be necessary. Achieving a budget agreement this year, followed by action to address health care and Social Security reform, is the course the nation should chart.

Such a course of action does not require altering the U.S. Constitution to write in a rigid fiscal policy prescription. A balanced budget constitutional amendment that risks making recessions deeper and more frequent, heightens the risk of default, weakens our tradition of majority rule, makes it harder to raise revenues, favors wealthy Americans over middle- and low-income Americans, jeopardizes the full faith and credit of the U.S. Government, and leads to reductions in needed investments is neither necessary to achieve fiscal responsibility nor a prudent path for the nation to follow.

¹ Statement of Robert D. Reischauer before the House Budget Committee, May 6, 1992.

² Materials on balanced budget amendment circulated by Reps. Dan Schaefer and Charles Stenholm, November 18, 1996.

³ Until the early 1980s, any deficits in periods other than wars or recessions were sufficiently small that the national debt *declined* as a percentage of the Gross Domestic Product. For example, the nation ran small

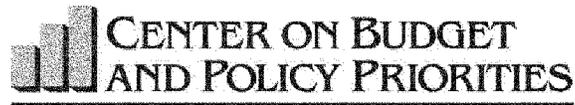
or modest deficits during most years of the 1960s and 1970s; between 1960 and 1980, the debt declined as a percentage of GDP.

⁴ In future years, a deficit equal to 1.5 percent of GDP would constitute a deficit somewhat large than \$110 billion, measured in 1996 dollars. This is because economic growth will have raised the Gross Domestic Product in future years to a larger size than in 1996.

⁵ Congressional Budget Office, *The Economic and Budget Outlook: Fiscal Years 1997-2006*, May 1996, Chapter 4.

⁶ Statement of James L. Blum, Deputy Director of the Congressional Budget Office, on "The Long-Term Budget Outlook and Options," before the Senate Budget Committee, January 22, 1997, pp. 16-17.

⁷ General Accounting Office, *Balanced Budget Requirements: State Experiences and Implications for the Federal Government*, (GAO/AFMD-95-58BR, March 26, 1993).



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Enforcement of a Constitutional Balanced Budget Amendment: Questions Without Answers

by Richard Kogan

How would the balanced budget amendment be enforced? For the amendment to have effect, the Supreme Court or the President would have to compel compliance in those circumstances when legislation to keep the budget in balance was not enacted.

This analysis examines some of the enforcement issues the balanced budget amendment raises. The analysis finds that the amendment raises very serious enforcement questions to which no one knows the answer. It also finds the amendment could lead to profound shifts in the balance of powers, with substantial new powers flowing to the President, the judiciary, or both. The questions the amendment raises about enforcement fall into two categories: what would be the role of the courts?; and what would be the role of the President?

Background

Even after all 13 of the annual appropriation bills are enacted for a year, it cannot be known with assurance whether the budget will be balanced. The level of federal tax receipts depends on variables such as the levels of corporate profits, wage income, and other types of personal income. The level of tax collections is highly sensitive to the economy. For example, a

recession can cause revenues to fall short of expectations by \$100 billion or more.

In addition, the level of expenditures for entitlement programs depends on variables such as whether a slowing of economic growth causes more people to become eligible for unemployment compensation, whether there is a flu epidemic, and other developments that cannot be predicted in advance. Here, too, the exact level of costs cannot be known until the year is over.

Even for non-entitlement programs, the level of spending (as distinguished from the level of appropriations) is not known with certainty before the end of the year. While the appropriations process imposes a dollar limit on the cost of the contracts that a government agency can sign, the agency's actual spending during a fiscal year depends on how quickly those obligations are incurred and how quickly the contractors deliver the goods and services. All appropriated funds will eventually be spent, but no one can know with precision the exact portion of the expenditures for non-entitlement programs that will occur in any given year rather than in the subsequent fiscal year.

Nevertheless, the balanced budget amendment says that outlays must not exceed receipts. This makes it unconstitutional not only to run a deliberate deficit but also to run an accidental deficit.

Enforcement

Authors and supporters of the balanced budget amendment envision that it would be enforced. For example, Rep. Henry Hyde, chairman of the House Judiciary Committee, has called the balanced budget amendment “much more than a mere symbol. It would establish a binding, legal framework, a disciplined structure requiring Congress to make the tough choices...”¹ Similarly, Reps. Dan Schaefer and Charles Stenholm, the primary sponsors of the House version of the amendment, have written that “[A]s a last resort, the judicial branch may act to insure that the Congress and President do not subvert the amendment.”²

Yet there are numerous questions surrounding enforcement of the amendment. This analysis examines some of them.

Who Goes to Court?

Suppose it becomes apparent that the budget for a fiscal year will not be balanced? Who can sue?

A general rule of law is that only injured parties can go to court. The traditional judicial doctrine of “standing” requires that a plaintiff have a direct and specific personal stake or injury. If a deficit develops, it is unclear who the injured party is. If the court takes the view that no one has standing, the balanced budget amendment is unenforceable by the judicial branch.

Perhaps the existence of a deficit constitutes an injury to future generations, so that, for example, an organization claiming to represent people under 30 would have standing to go to court. The authors of the amendment, however, do

not think so. In materials that the House co-authors of the amendment, Reps. Dan Schaefer and Charles Stenholm, circulated in November 1996, they wrote: “A ‘generalized’ or ‘undifferentiated’ public grievance, such as would suggest ‘taxpayer’ standing via-a-vis macroeconomic policy decisions, is not recognized.”

To get around the possibility that *no one* would have standing, Schaefer and Stenholm assert that, “[a] member of Congress...probably would have standing to file suit challenging legislation that subverted the amendment.” There is no language in the amendment granting such special standing. It is far from clear the courts would agree with Schaefer’s and Stenholm’s assertion on this matter.

What Enforcement Action Could the Courts Take?

Assume the courts ruled someone did have standing to go to court in the face of an impending deficit. What remedies could the courts order?

The amendment is silent on this matter. There are three general types of actions the courts could take:

- The courts could order Congress and the President to enact unspecified tax increases or program cuts in an amount sufficient to eliminate the deficit. Congress and the President could be given a time limit and held in contempt and jailed if they did not come up with a solution.
- The courts could order Congress and the President to enact specified tax increases or program cuts; if they failed to do so, the courts could design and

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order the tax increases and program cuts themselves.

- The courts could declare unconstitutional the laws that caused the budget to go into deficit.

The first possibility — contempt citations and jail — would be unprecedented. The second — court-designed tax increases and program cuts — should not be ruled out. For example, Judge Robert H. Bork has written: “Unless attention is paid to the institutional problems involved, a constitutional amendment [requiring a balanced budget] would become in practice a nullity — either that, or the budgetary process would pass into the hands of the courts, an outcome desired by no one.”³

If the courts do not design specific program cuts and tax increases, a number of further questions arise. To reduce a deficit, Congress normally takes several steps. It uses the congressional budget process to set a limit on the total amount that can be funded in the annual appropriations bills. It also can direct, in the congressional budget resolution, that a reconciliation bill be developed in which various entitlement benefits are reduced and/or taxes raised.

Reconciliation bills are often contentious. They do not always pass Congress or secure a Presidential signature. Suppose a deficit would be eliminated if a pending reconciliation bill were enacted, but the bill is defeated and the budget threatens to be out of balance. Might a court order implementation of the reconciliation bill even though it has been defeated? Such an approach might be viewed as less presumptuous than action by a court to design a detailed deficit reduction plan itself. Yet a judicial action to order implementation of a bill Congress had rejected would stand on its head the process by which our nation’s laws have been made for 200 years.

This raises yet another possibility. If a court could declare a defeated reconciliation bill to be law to fulfill a constitutional mandate of a balanced budget, could a court also declare a bill waiving the balanced budget requirement to be law, especially if such a bill had garnered majority (though not supermajority) support while a defeated reconciliation bill had fallen short of amassing even a simple majority? When a deficit threatens, the balanced budget amendment instructs Congress to choose between eliminating the deficit by majority vote or accepting the deficit by supermajority vote. If Congress does neither, can the courts choose either course?

The courts might be reluctant to declare as law a piece of legislation that Congress had failed to pass. They might well prefer an alternative route of declaring as unconstitutional the particular piece or pieces of legislation that have caused the deficit. This seems to be the role that Reps. Schaefer and Stenholm envision the courts playing. They write:

The courts could make only a limited range of decisions on a limited number of issues. They could invalidate an individual appropriation or tax act. They could rule as to whether a given Act of Congress or action by the Executive violated the requirements of this amendment... [A]bsolutely no role for the courts is foreseen beyond that of making a determination as to whether an Act of Congress or an Executive action is unconstitutional and [making] a court order not to execute such Act or action.

Nothing in the language of the amendment supports this limited reading of the amendment. But let us assume this limited reading is correct. What does it imply?

Reps. Schaefer and Stenholm raise the possibility that an Executive action would

precipitate a deficit and be unconstitutional. They say the courts could order the president “not to execute such action.” Consider the situation just discussed in which enactment of a pending reconciliation bill is needed to eliminate the deficit. Suppose Congress passes the bill, but the President vetoes it. Can the courts override the veto and declare the bill law in order to fulfill the constitutional balanced budget mandate? If the balanced budget amendment had been in effect in the fall of 1995, could the courts have used this authority to order President Clinton to sign the reconciliation bill Congress sent him?

Which Laws to Strike Down?

Suppose the courts decide they can *not* “enact” a defeated or vetoed reconciliation bill but can merely strike down laws that have been enacted. At first blush, this might seem to be a logical approach for the courts to take. But which laws could they strike down? After all, a deficit occurs when the sum of *all* expenditures exceeds the sum of *all* receipts. No particular spending bill — and no particular tax cut — is more culpable than any other. This would be especially true if the budget appeared to be in balance when Congress completed action for the session but was subsequently thrown into serious deficit by an economic slowdown or unforeseen developments in the financial markets.

Thus, the courts might have to pick and choose which laws to invalidate. In theory, in the event of an unaddressed deficit, the courts could choose among such disparate pieces of legislation as the defense appropriations act, the appropriations act for the departments of Health and Human Services, Labor, and Education, the Medicare Act, or the 1981 Kemp-Roth tax cut. In such a circumstance, the result may be considerably less equitable than if the court could design an even-handed approach that trims all areas of the budget. But Reps. Schaefer and

Stenholm suggest the court should view a court-designed budget cut as beyond its authority.

To avoid arbitrary action by the courts in selecting which laws to invalidate, suppose the courts decided that laws resulting in either government spending or tax reductions should be struck down in reverse chronological order until the budget is balanced. For example, if the last bill enacted by Congress before adjournment was a tax cut, the tax cut would be struck down. If that was insufficient to produce budget balance, the last enacted appropriations bill — say, the agriculture appropriations bill — would be struck down next. If that was still insufficient, the next-to-last appropriations bill would be invalidated, and so on.

Such an approach would raise serious equity problems. Why should one agency be shut down and a different one remain open simply because the appropriation for one agency was enacted September 28 and the other September 27? Note that bills generally land on the President’s desk in bunches, and he can choose the order in which to sign them.

This also would raise practical questions. Suppose, for example, the last bill enacted is the appropriations bill that funds the Department of Transportation. Among other results, striking down that bill would appear to send home the air traffic controllers and shut down the nation’s airports. Yet as those who lived through the partial government shutdown of 1995-1996 know, there is a permanent federal statute called the “antideficiency act” that provides indefinite (open-ended) funding to maintain those government activities “essential to protect life and property” in the absence of a regular, annual appropriation bill. If the Transportation Department shuts down, the president can determine that air traffic controllers are essential. But if he did, might the courts argue that such a

determination was “an executive act causing a deficit” and therefore unconstitutional?

If the courts agree that the president retains authority to pay essential employees, they would have to strike down appropriations one at a time, determining in each case the estimated cost of keeping essential activities going, and then move on to the next most recently enacted law. In the case of a recession, which could cause a deficit of more than \$100 billion, it is plausible that striking down the entirety of all 13 appropriations bills would not be sufficient to restore balance, given the large cost of essential activities such as national defense, border protection, air traffic control, and food and water inspection. At that point the courts could move to the most recently enacted entitlement law. Cost-of-living adjustments for compensation payments to disabled veterans are enacted annually, so they would generally be the first to go. Farm bills, which reauthorize price support programs and food stamps, are enacted periodically; they might be the next to go.

The invalidation of the most recently enacted expenditure laws and tax cuts would almost certainly lead to considerable jockeying for early enactment. This would not be a salutary outcome; when single Senators or small groups of Senators can hold up bills against the wishes of the majority, the threat that a late bill might be a dead bill would strengthen the ability of a single senator to extort concessions. Supporters of a particular agency might feel the need to concede on other issues to get their agency funded early.

The Role of The President

The balanced budget amendment raises equally serious questions about the role of the President. Reps. Schaefer and Stenholm have sought to offer assurances that the balanced budget amendment would not greatly enhance the powers of the President. In the materials they circulated in November, they wrote:

The language of Section 1...creates an ongoing obligation to monitor outlays and receipts and make sure that outlays do not breach (sic) receipts. This does not envision any sort of discretionary ‘impoundment’ power on the part of the president... [He] would be bound, at the point at which the government ‘runs out of money,’ to stop issuing checks.... [The balanced budget amendment] does not broaden in any way the powers of the President.

But this assurance raises more questions than it answers. For example, what does “stop issuing checks” mean? Suppose that in August, the Treasury estimates the net budget surplus usually run in September — a month in which a large portion of estimated business taxes are paid — will not be large enough and the fiscal year will end in the red. Suppose further that, if the government mails no checks for the last 17 days of September, that will balance the budget. Is the president required to issue such an order?

If the answer to this question is “yes,” two further questions arise. First, failing to pay checks for 17 days doesn’t make the legally required expenditures go away; it just pushes them into a new fiscal year. This is simply a timing shift, which will (all other things being equal) cause a deficit in the next fiscal year. Can the courts invalidate the President’s order on the grounds that it causes a subsequent deficit?

Enforcement of a Constitutional Balanced Budget

Second, does the phrase “stop issuing checks” mean the President must order agencies to stop incurring financial obligations? That is, must he ground the military, furlough federal employees (civilians and soldiers alike), cancel Social Security payments, unemployment compensation payments and food stamps, halt Medicare and Medicaid reimbursements, and so on?

If so, persons with a legal right to payment — defense contractors who have delivered their tanks, depositors with federally “guaranteed” deposits in failed banks, citizens owed interest on their Treasury bills, the elderly owed their Social Security checks, and others — will go to the Court of Claims for redress.⁴ What will that Court rule? Will it say that rights under federal statute and contract law disappear if there is a deficit? Or will it order the President to make payment? And in the latter case, suppose that the Treasury has reached the debt limit and cannot legally borrow more — must the President ignore the mandate of the Court of Claims? Or, alternatively, can that Court order the Treasury to borrow and the President to pay, notwithstanding the balanced budget amendment?

Conclusion

As this discussion indicates, there are very serious questions about the meaning of the balanced budget amendment, how it will be enforced, and the extent to which it will shift vast new authority to the judiciary or the President and alter the balance of powers that has served our nation well for 200 years. The troubling questions discussed here, especially those concerning the role of the courts and the President under a balanced budget amendment, have no clear answers.

The murkiness of the amendment on issues of such importance is cause for concern.

As Judge Bork has written: “...not all policies can be made into effective law. There is a tendency to think that constitutional rules execute themselves and that they accomplish precisely what was intended, but that is not by any means always the case.”⁵

¹ Congressional Record, January 25, 1995, p. H629

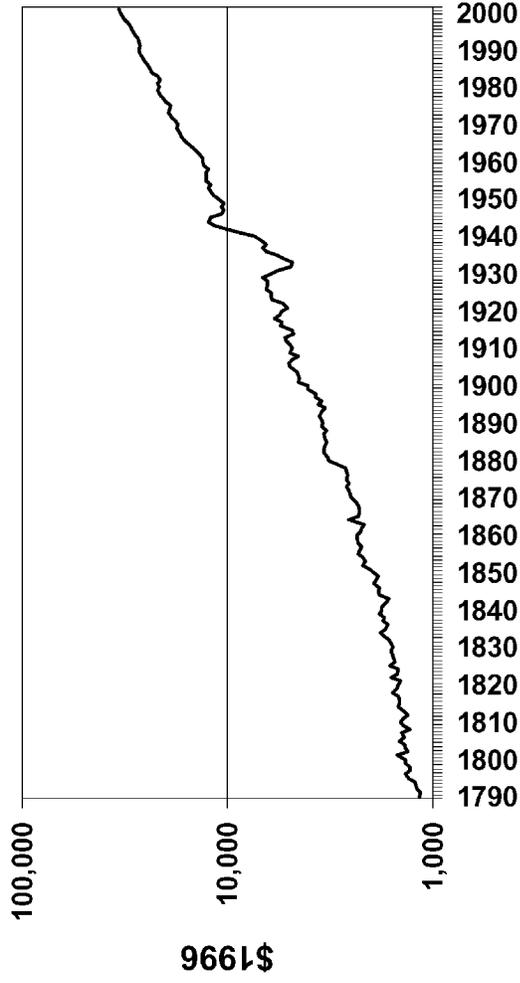
² Reps. Dan Schaefer and Charles Stenholm, materials entitled “Cosponsor The Balanced Budget Amendment,” Nov. 18, 1996.

³ “On Constitutional Economics,” *Regulation*, Sept./Oct. 1983.

⁴ For a discussion of the implications of the balanced budget amendment with respect to deposit insurance and other “binding” government commitments, see Richard Kogan, “A Balanced Budget Could Jeopardize Our Financial Stability,” Center on Budget and Policy Priorities, June 1995.

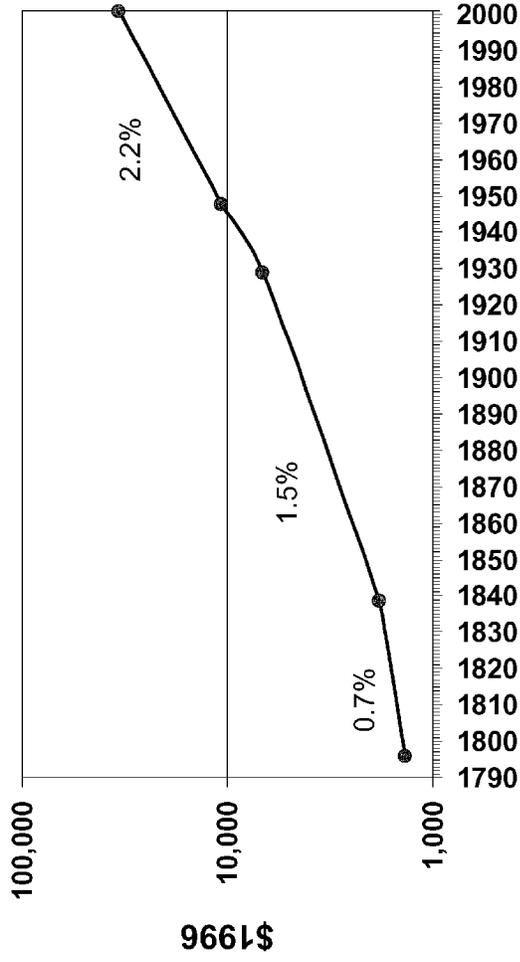
⁵ Bork, *Op. Cit.*

Real GDP per capita

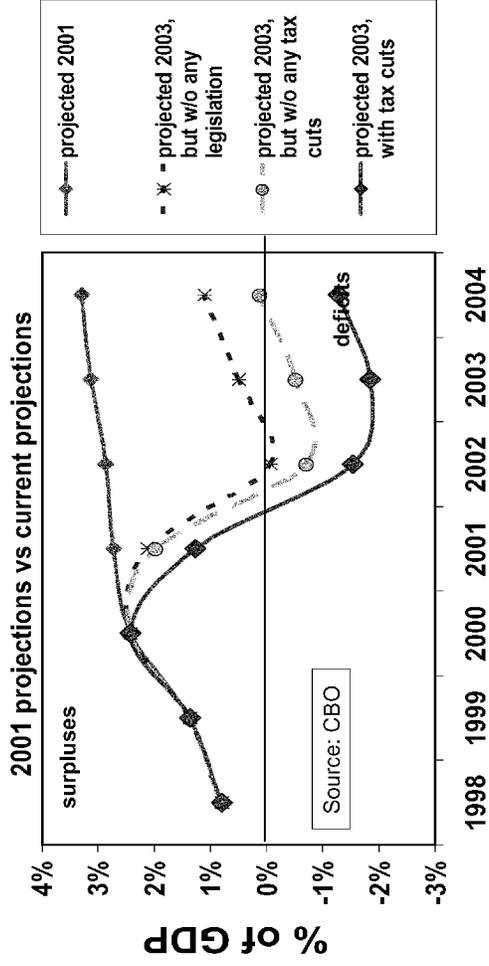


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Real GDP per capita

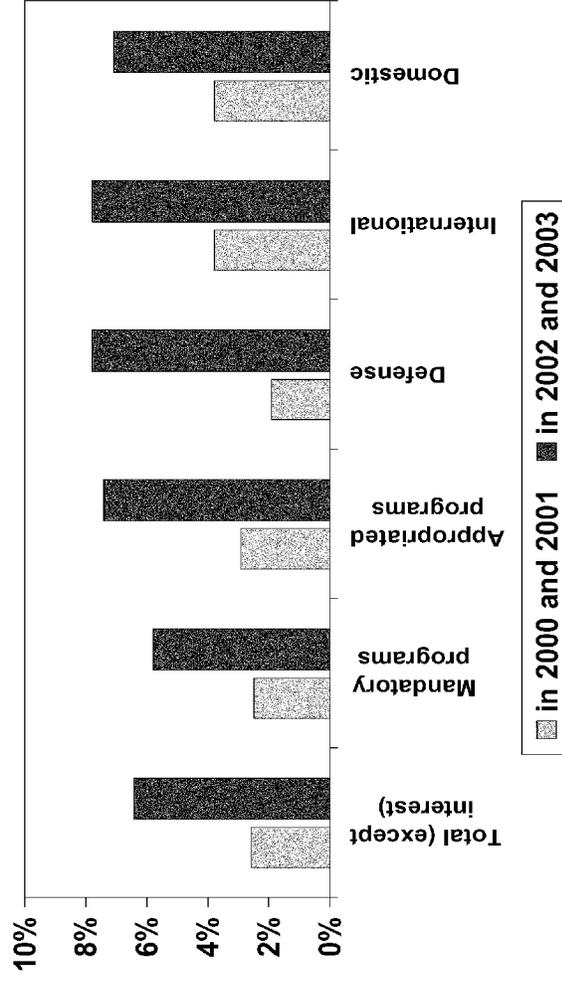


Tax Cuts and Deficits



Outlay Growth Rates:

average % increases in real expenditures per capita



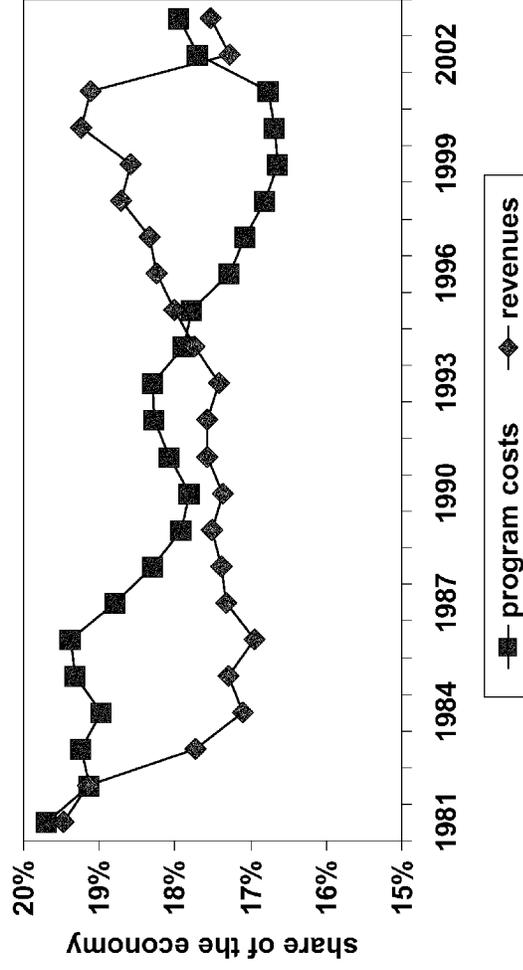
Changes in the Budget over Three Periods: 1981 to 1986; 1986 to 2001; and 2001 to 2003

Standardized expenditures and revenues as a share of potential GDP

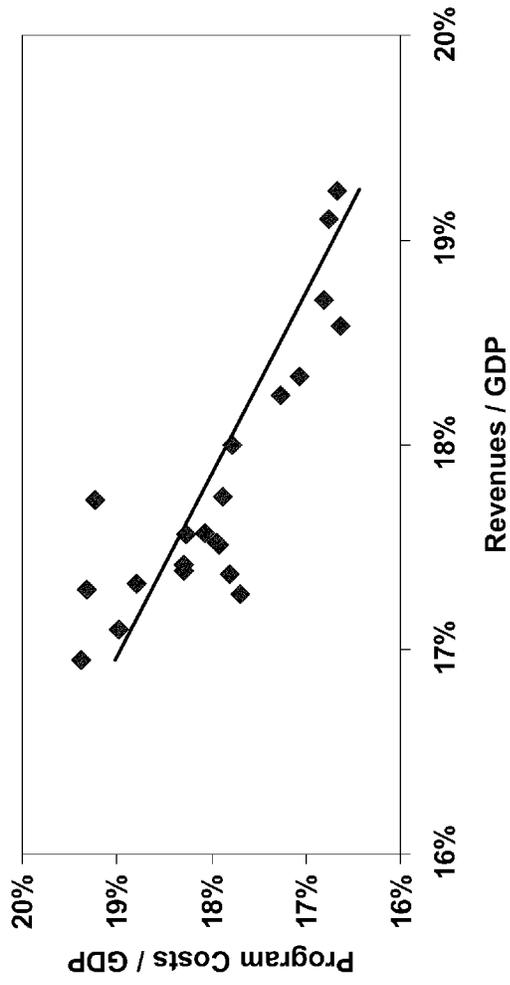
	1981	1986	1981 to 1986	2001	1986 to 2001	2003	2001 to 2003
Revenues	19.5%	16.9%	-2.5%	19.1%	+2.2%	17.5%	-1.6%
Budget Programs*	19.7%	19.4%	-0.3%	16.8%	-2.6%	17.9%	+1.2%
Defense, homeland security, and international affairs	5.6%	6.6%	+1.1%	3.4%	-3.2%	4.0%	+0.6%
Domestic appropriations w/o homeland security	4.3%	3.3%	-1.0%	3.1%	-0.1%	3.3%	+0.2%
Entitlements	<u>9.9%</u>	<u>9.5%</u>	<u>-0.4%</u>	<u>10.2%</u>	<u>+0.8%</u>	<u>10.7%</u>	<u>+0.5%</u>
Surplus (+) of deficit (-) *	-0.2%	-2.4%	-2.2%	+2.4%	+4.8%	-0.4%	-2.8%

* Excluding net interest; may not add due to rounding. Data on standardized expenditures and revenues from CBO.

Program Costs and Revenues



Revenues vs. Program Levels, 1983-2003



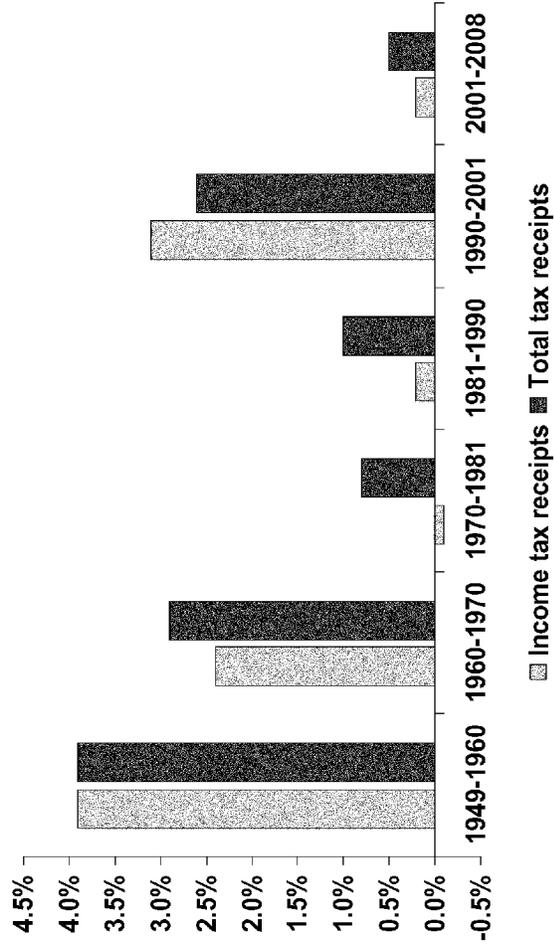
Average Annual Economic Growth Rates over Selected Periods

Adjusted for inflation and the size of the population age 20-64
The end-points of each period are business-cycle peaks

Calendar year and quarter	Average annual real GDP growth, per working-age person	CBO's estimate of potential average annual real GDP growth, per working-age person	Average annual real GDP growth
1948:4 to 1960:2	2.9%	n.a.	3.7%
1960:2 to 1969:4	3.1%	2.8%	4.4%
1969:4 to 1981:3	1.2%	1.5%	3.0%
1981:3 to 1990:3	2.0%	1.8%	3.2%
1990:3 to 2001:1	2.0%	1.9%	3.1%
2001 to 2010 (CBO est.)	1.9%	2.0%	2.9%
2001 to 2008 (OMB est.)	1.9%	n.a.	3.0%
<i>Addendum.</i> 1948:4 to 2001:1	2.2%	n.a.	3.4%

Source: CBPP calculations from Census, CBO, and OMB data

Average Annual Growth Rates of Tax Receipts, Adjusted for Inflation and Population



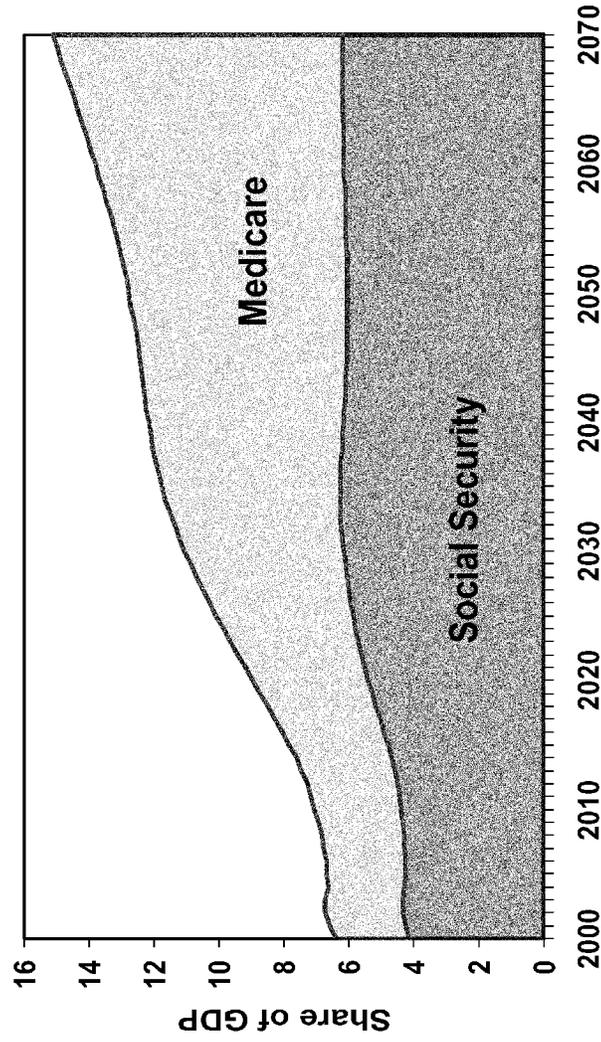
Average Annual Revenue Growth Rates over Selected Periods

Adjusted for inflation and the size of the population age 20-64
The end-points of each period are business-cycle peaks

Fiscal year	Average annual growth rate of real income-tax receipts per working-age person	Average annual growth rate of real payroll and other tax receipts* per working-age person	Average annual growth rate of real <i>total</i> receipts per working-age person
1949 to 1960	3.9%	4.1%	3.9%
1960 to 1970	2.4%	4.0%	2.9%
1970 to 1981	-0.1%	2.2%	0.8%
1981 to 1990	0.2%	1.9%	1.0%
1990 to 2001	3.1%	1.9%	2.6%
2001 to 2010, CBO (baseline)	1.6%	1.1%	1.4%
2001 to 2008, OMB (Presidential policy)	0.2%	0.9%	0.5%
Addendum: 1949 to 2001	1.9%	2.8%	2.3%

*Payroll taxes are Social Security and Medicare taxes; other taxes include excise taxes on gasoline and tobacco, estate taxes, and miscellaneous taxes. Source: CBPP calculations from OMB Historical Tables (February 2003), CBO Baseline (January 2003) and U.S. Census.

Longer-term budget outlook



Source: CBO

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Mr. CHABOT. Thank you very much.
Mr. Beach?

STATEMENT OF WILLIAM W. BEACH, DIRECTOR, CENTER FOR DATA ANALYSIS, JOHN M. OLIN SENIOR FELLOW IN ECONOMICS, THE HERITAGE FOUNDATION

Mr. BEACH. Mr. Chairman, Congressman Nadler, I'm delighted to be here today to join my colleagues on this panel to talk about the balanced budget, balanced budget amendment, and urge you to do that, no matter whether we have an amendment or not.

I'm going to summarize three points that are in my written testimony, and my written testimony should contain an attachment—and I hope it does—of a paper by my colleague, Brian Riedl, which is central to the written components of my testimony.

I'd like to talk about three different headings: the first, sort of a constitutional principle of what I think really does motivate a republican form of Government when you have balance as an objective, and that is, constitutional debate on priorities. Secondly, I'd like to remind the Committee about the really critical statistical evidence of where we are right now on spending and on revenues. The numbers really do get worse every day, and I think it's important that we move not only in the appropriations and budget process, but on the constitutional side as well. And, finally, I'd like to make one note about the horse and the cart and how important it is to keep the health of the horse up if the cart is going to continue to get larger.

I really do think that the 108th Congress can work for the long-term well-being of those who elected it in a number of ways: strengthening national defense, providing needed tax relief to keep the economy growing and to keep it strong, and enact key reforms that affect the country's neediest citizens. Those are things that must be done. But this Congress does have a historic opportunity, and that is to live in history as the Congress that enacted or passed on to the States for their ratification a balanced budget amendment. And there are many reasons why I think this is a crucial thing for us to have.

The Constitution—the way in which our republican form of Government operates—this message from the outside consultants. The way, in my view, our Constitution operates to promote and extend republican Government is to have great debates over policy priorities that are pressing in the public's mind. But one of the problems with having great debates now is that the Congress and the Administration, the Federal Government, is able to avoid many policy matters by borrowing their way out of a debate.

Now, at the State level—and many of you have State experience, as I do, where we are required to keep the balance in budget—the budget in balance—you find that at times the legislature must grapple with the differences in priorities because it has no choice but to do so. And if it is not done in the legislative body, then the Governor imposes choices, which is another way of doing it.

And so I think from a constitutional health standpoint, something that imposes balance or requires it or motivates it will go to the central heart of our republican form of Government, and that is that the public can always count on its representatives carefully

debating and vigorously debating the differences in priorities. And why is this important?

Well, right now we have a big problem on the spending side. Let me remind you of a few reasons why you should be concerned.

The outlays of the Federal Government today are slightly more than 23 times greater than they were in 1960. Government spending, after adjusting for inflation, has increased nearly five-fold since 1960, while the population has grown by a factor of 1.6. Per capita Federal spending now stands at \$7,600. In 1960, per capita Federal spending stood at \$510.

Total publicly held debt in 1960 was \$236.8 billion. In 2003, it equals \$3.9 trillion. And this Congress and the preceding Congress and the Congress just before that must bear a great deal of responsibility for these awful numbers. Republicans and Democrats alike share this.

In the last 4 years, Federal spending—that's Republicans and Democrats, the last 4 years, Federal spending has increased by \$800 billion. The last 4-year period when Federal spending increased by that rate was at the darkest moment of World War II. And I think what we're looking at now in the current budget being considered is yet more burden for the horse to carry. So let me sum up by talking about the horse.

The horse, of course, is the general public that produces the revenues, and the cart is the increasing size of Government that you're asking that horse to pull. Now, we've been doing a good deal of work on what would create a better environment for the economy, looking at what the President's proposed, we're just about to finish work on what Senator Daschle has proposed in S. 414. Both bills move the economy to a higher level of activity. And why is that important for this consideration, for this group?

It's important because if you don't move forward on a balanced budget, then you must move forward on steps to move the economy to a higher level of activity. The President's bill creates about a million jobs per year beginning right away. It drops the unemployment rate throughout the forecast period of the next 10 years. Payroll tax revenues increase significantly during this period, which strengthens the trust funds—all of which go to the notion of the deficit, all of which go to the notion of debt, and that goes to the central focus of what we're here to talk about, the balancing of the budget.

Thank you very much.

[The prepared statement of Mr. Beach follows:]

PREPARED STATEMENT OF WILLIAM BEACH

I want to begin my testimony today by thanking this Subcommittee on the Constitution for providing an opportunity for me to testify on behalf of a balanced budget amendment to the U.S. Constitution. The opinions expressed in this testimony are mine alone and do not necessarily reflect those of The Heritage Foundation.

There are many things that the 108th Congress can do for the long-term well being of those represented by the Members: among them are strengthen our national and domestic security, provide tax relief that yields a stronger economy, and enact needed reforms to key programs that affect the country's neediest citizens. However, this Congress certainly would secure its place in history and fulfill its obligation to govern for the general good if it referred to the states for ratification an amendment to the Constitution that requires the federal government to operate within a balanced budget.

My testimony today is divided among three headings: 1) the constitutional importance of vigorous debate over competing priorities; 2) the statistical evidence that supports a rapid movement toward a balanced budget amendment; and 3) the role that dynamic revenue estimation plays in the process of achieving annual budget balances.

The place of spending debates in the health of the Constitution. I know that many fiscal conservatives view the balanced budget amendment as justified principally on financial grounds. It is virtually uncontroversial that governments at all levels should practice the spending disciplines of well-run businesses. This practice is especially important at the federal level, if for no other reason than the enormous influence that federal spending has on other governments and the economy generally. Spending limitations encourage better accounting controls and auditing processes, which assure that the monies allocated to address the priorities of voters are, indeed, well spent.

However, I believe that a larger, constitutional goal is served by amending the constitution to require a balanced budget: representative government works only as well as it allows a full airing of its citizens' divergent views, particularly in open debates over competing public policy priorities. Without a way to limit spending, such debates are unlikely to occur.

Suppose an extreme situation in which there exist no limitations on the ability of the federal government to spend taxpayers' funds except the capacity of taxpayers to produce revenues. In such a world, no one's spending goals would go unachieved in the short run. There would, as a consequence, be no debate over the direction the nation should go in meeting the needs of its elderly citizens, its educational systems, or its national defense. And, without debate and the deep social, economic, and policy inquiry such debate engenders, we would likely be unable to sustain our republican form of government.

Of course, such an extreme world cannot exist for long, if for no other reason than boundless spending by government inevitably destroys the economy out of which revenues flow. The point of this scenario, however, applies equally well to more realistic gradients of the extreme case. The ability of a government to avoid hard decisions about priorities because it can borrow to meet its revenue shortfalls also diminishes debate over competing views of our country's future and current priorities. This borrowing ability may, as well, enable organizations with powerful lobbying capabilities to squeeze millions of dollars in subsidies from Congress and the Administration with the public scrutiny that debate can produce.

Are there reasons for being concerned? These constitutional considerations should be justification enough to adopt a balanced budget amendment, even if reality had yet to catch up with the possibilities outlined above. However, the evidence is mounting that those fiscal disciplines that may once have protected these vital constitutional processes have yielded utterly to growth in spending that far exceeds required levels.

Let me highlight a few facts:

- The outlays of the federal government today are slightly more than 23 times greater than they were in 1960.
- Government spending after adjusting for inflation has increased by nearly five fold since 1960, while the population has grown by a factor of 1.6.
- Per capita federal spending now stands at \$7,600. In 1960, per capita federal spending stood at \$510.
- Per capita share of publicly held federal debt now stands at \$13,720. In 1960, this share stood at \$1,310.
- Total publicly held debt in 1960 was about \$236.8 billion. In 2003 it equals about \$3.88 trillion.
- Worse news on the debt is on the way. By 2020, most of the baby boom generation will be retired and drawing monthly checks from Social Security. By 2030, the total Medicare enrollment will be more than double the current Medicare population. Neither Medicare nor Social Security is expected to survive the onset of the baby boom without massive infusions of additional cash or major structural reform. The unfunded liabilities of Social Security alone are now in excess of \$21 trillion over the next 75 years.

The recent Congresses have shown little will to reverse or even slow this explosion in federal spending. The 107th Congress completed a four-year spending spree that exceeds every other four-year period since the height of World War II. Between 2000 and 2003, federal spending grew by \$782 billion. This growth in spending is equivalent to \$73,000 in household spending, which, again, was exceeded only during the darkest hours of the Second World War.

I have attached a policy essay to this testimony by my colleague Brian Riedl, who details this nearly unprecedented explosion in outlays. If the spending record of the period 1960 through 2000 fails convince Members of Congress that spending growth is beyond their collective abilities to control, the past four years should abundantly make the case.

The role of dynamic revenue estimation in the budget process. Exceptionally rapid growth in government spending, such as we've seen in the last four years, bears down heavily on the general economy and, thus, on federal revenue growth. The consumption of goods and services by government generally comes at the expense of consumption and investment by private companies. This redirection of economic resources should be a concern to policy makers because private companies generally use identical resources more productively than government. When government uses economic resources instead of private firms, the growth of the economy slows below its potential, which reduces potential employment and tax revenue growth.

Members of Congress and the general public do, however, change public policy from time to time in order to achieve a specific end, like winning a war or encouraging an expansion of economic activity that call for spending above revenues. When the public and the Congress begin considering these policy changes, a better, more informed debate will be had if those involved in the decision process are able to see estimates of how their proposed changes would affect budget outcomes.

For reasons well beyond this hearing, Congress has resisted the adoption of dynamic tax and budget analysis in the past. However, the 107th Congress made great progress in bringing macroeconomic analysis into the tax policy debate, and a beginning also was made in introducing this analytical discipline into the preparation of the annual budget.

I raise this emerging capability here because it relates to directly to the constitutional and fiscal importance of evaluating competing budget priorities. If the budget committees and those other bodies that propose tax policy changes were to use macroeconomic analysis as a routine part of their deliberations, I am confident the Congress would make better decisions between competing budget priorities than they do now.

Let me briefly illustrate how dynamic economic analysis could inform the annual debate over the federal budget. The Center for Data Analysis at The Heritage Foundation recently completed an econometric analysis of President Bush's proposed economic growth plan. This plan contains a number of major changes to current tax law, including the end to the double taxation of dividends. We introduced these tax law changes into a model of the U.S. economy that is widely used by Fortune 500 companies and government agencies to study such changes. Here are few of the interesting effects we found that would like stem from adopting the President's plan:

- Employment would grow by nearly a million jobs per years over the next ten years, which adds significantly to the tax base of federal and state governments.
- The drop in the unemployment rate reduces government outlays for unemployed workers at all levels of government.
- Investment grows much more strongly under a tax regime without the double taxation of dividends than with such a policy, which expands the growth rate of the general economy, thus offsetting some of the deleterious effects of rapidly growing federal spending.
- The payroll tax revenues grow more rapidly with President Bush's plan than without, thus adding about \$60 billion more to the trust funds than currently forecasted.
- Most importantly, the forecasts of fiscal doom made by many of the plan's critics fail to materialize. The additional economic growth produced by the plan reduces the ten-year "cost" to about 45 percent of its static amount.
- This economic feedback also reduces the growth of new publicly held debt that the plan's critics expect. Instead of a trillion dollars in new debt, the economic growth components of the plan produce significantly under 50 percent of that amount. In fact, the plan supports the creation of \$3 in after-tax disposable income for every \$1 of new debt, while still reducing all publicly held debt by 28 percent between 2004 and 2012.

While this testimony has touched on only a few of the many arguments that can be advanced in support of a balanced budget amendment, I trust that the thrust of my interest in this constitutional outcome is clear. We need the amendment not only to contain the growth in spending (a worthy goal all by itself), but also to protect our constitutional process of vigorous public debate over important policy alternatives. A budget process constrained by a balanced budget amendment and accom-

panied by the routine use of standard macroeconomic analysis would be more likely to produce the size and quality of government that most Americans desire.



The Heritage Foundation
Backgrounder
Executive Summary

No. 1581

September 4, 2002

HOW WASHINGTON INCREASED SPENDING BY NEARLY \$800 BILLION IN JUST FOUR YEARS

BRIAN M. RIEDL

EXECUTIVE SUMMARY

As the 107th Congress moves closer to completing the fiscal year 2003 budget, a disturbing pattern of budgetary recklessness is emerging. If current estimates hold, the 2000–2003 period will prove to be one of the highest-spending four-year periods in American history—well above the previous 1996–1999 and 1992–1995 periods. In fact, from 2000 to 2003:

- The federal government will spend \$782 billion more than it did during the previous four years—the largest four-year increase since the 1984–1987 period (in 2001 dollars adjusted for inflation);
- The four-year cost of the federal government will be over \$73,000 per household—a total surpassed only at the height of World War II—and over \$5,000 per household more than during the previous four years (see chart);
- For the first time since President Lyndon Johnson's Great Society initiative expanded entitlement programs over 30 years ago, discretionary spending programs will receive even larger increases over a four-year span than those bloated entitlement programs will; and
- These colossal spending increases are occurring despite the plummeting of net interest payments by \$247 billion over those four years.

Contrary to popular belief, the war on terrorism is responsible for only a small portion of the spending increase. Only 21 percent of the \$782 billion spending increase is allocated to defense, and less than a quarter of that defense increase can be directly attributed to the war on terrorism.

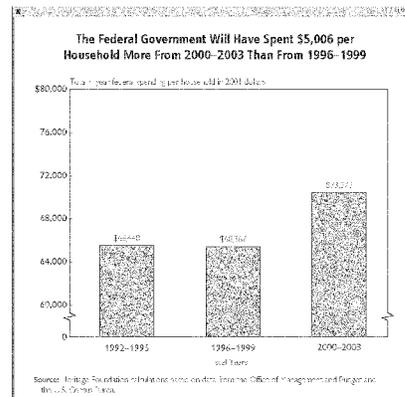
The 2000–2003 spending spree is a classic case of death by a thousand blows—record spending increases for dozens of medium-sized programs across several departments, none by itself fatal but collectively all lethal. Some of the largest spending increases have been granted to traditionally low-cost programs. For example:

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- Agriculture spending is growing from \$57 billion over 1996–1999 to \$117 billion over 2000–2003;
- Health programs (other than Medicare and Medicaid) are growing from \$127 billion over 1996–1999, to \$190 billion over 2000–2003;
- Education spending is growing from \$128 billion over 1996–1999 to \$170 billion over 2000–2003; and
- Unemployment compensation payments are growing from \$100 billion over 1996–1999 to \$150 billion over 2000–2003.

These increases are not the result of a decision by Congress and the President that a few high-priority programs are worth \$782 billion in new funding. Even lower-priority programs, such as the Denali Commission, Power Marketing Administration, Bureau of Export Administration, Foreign Agriculture Service, and Neighborhood Reinvestment Corporation are receiving massive spending increases. Thus, runaway spending is the predictable result of the refusal of undisciplined policymakers to set priorities and say no to special interests.

Unrestrained spending slows economic growth, which in turn means fewer jobs and lower incomes. For the market to function, government must provide necessary services that the private sector would have difficulty providing, such as defense, law enforcement, and public goods such as roads that facilitate trade. Despite the outdated fallacy that government spending stimulates the economy, beyond this basic level it impedes economic growth for three reasons:

- **Diminishing Effectiveness.** As governments expand beyond defense, law enforcement, and public goods into areas such as education, food, housing, and income security, they inevitably block the market from performing its own functions in these areas. Consequently, government becomes increasingly ineffective, until it ultimately becomes a barrier to economic growth.
- **Politics.** Markets use the profit motive to ensure that resources will be spent effectively. Governments, by contrast, are monopolies in which the only “profit” to the politicians running the system is re-election. Thus, decisions on government spending are often driven by politics, not by efficiency.
- **High Taxes.** Increased government spending raises taxes for working families, making it more difficult for them to afford necessities such as food, housing, and health insurance. Furthermore, these taxes reduce the financial rewards for working, saving, and investing—behaviors that increase economic activity and cause the economy to grow. As families and business cut back these behaviors to avoid taxes, the entire economy falters.

Unless Congress and the President make a concerted effort to address runaway spending, families will continue to have difficulty making ends meet, and the economy will struggle under the suffocating weight of an ever-expanding federal government.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.



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entitlement programs over 30 years ago, discretionary spending programs will receive even larger increases over a four-year span than those bloated entitlement programs will;

- These colossal spending increases are occurring despite the plummeting of net interest payments by \$247 billion over those four years; and
- This rapid expansion of the federal government is causing higher taxes and lower economic growth, and consequently costing jobs and reducing incomes.³

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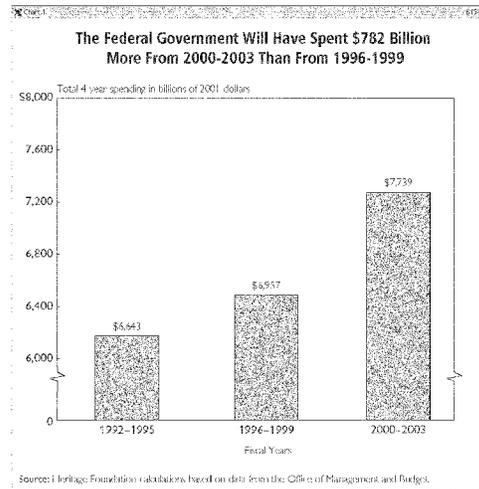
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1. Each four-year breakdown roughly correlates with two congressional terms. For example, the period of fiscal year (FY) 2000 to FY 2003 covers budgets set by the 106th Republican Congress and the 107th split Congress; the period of FY 1996 to FY 1999 covers budgets set by the 104th and 105th Republican Congresses; and the period from FY 1992 to FY 1995 covers budgets set by the 102nd and 103rd Democratic Congresses.

2. All figures in this paper are adjusted for inflation and are in 2001 dollars.



previous four years, as the Republican takeover of Congress symbolized a national backlash against activist government. Even from 1992-1995, a time of considerable government activism, federal spending was just \$2,187 per household higher than it was the previous four years. Not since 1984-1987 has federal spending per household grown faster than the current rate.

Table 1 shows that this increase per household will raise the total four-year cost of the federal government to a staggering \$73,373 per household—again, a level surpassed only during the height of World War II.

WHERE IS IT ALL GOING?

Despite the allure of the easy answer, these spending increases are not the result of a

WASHINGTON'S SPENDING SPREE: \$5,006 MORE PER HOUSEHOLD

Substantial increases in federal spending since 2000 have made the reasonably responsible budgets of the late 1990s seem like a distant memory. Congress and the President will spend \$782 billion more from 2000-2003 than they did from 1996-1999. (See Chart 1.) These spending increases will cost the average household an additional \$5,006 in taxes. (See Chart 2.)

Rarely has the federal government expanded this quickly. Chart 2 also shows that federal spending per household from 1996-1999 was actually \$80 lower than it had been during the

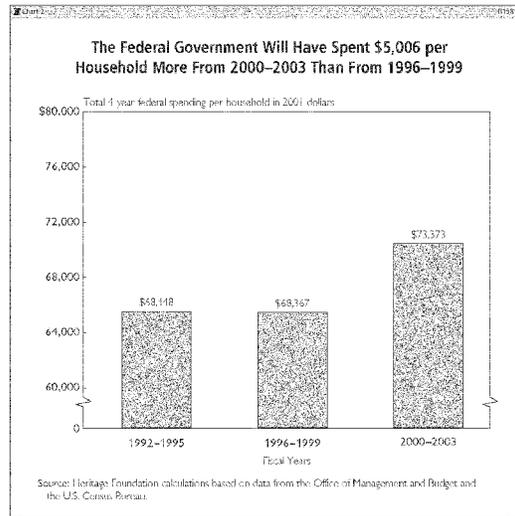
Washington's Current Four-Year Spending Spree Will Be the Third Largest in U.S. History*

Rank	Period	Total Federal Spending per Household
1	1943-1946	\$85,139
2	1912-1915	\$83,337
3	2000-2003	\$73,373
4	1999-2002	\$71,218
5	1998-2001	\$69,425
6	1911-1917	\$69,212

Note: *All amounts are in constant 2001 dollars. † Household populations before 1940 estimated from data provided by the U.S. Census Bureau.

3. Unless otherwise noted, all federal spending was calculated by analysts at The Heritage Foundation using the Office of Management and Budget's *Budget of the United States Government, Fiscal Year 2003: Historical Tables*, and updated through August 2002 using OMB's *Fiscal Year 2003 Midsession Review*. Spending categories are broken down by budget function. Per-household calculations were made using household data from the U.S. Census Bureau. All expenditures are in constant 2001 dollars.

NOTE: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.



process by which Congress and the President carefully assessed the nation's needs and then decided that one or two vital national priorities were worth \$782 billion in additional funding. To the contrary, they are a classic case of death by a thousand blows—record spending increases for dozens of medium-sized programs across several departments, none by itself fatal but collectively all lethal. These scattered spending hikes are the predictable result of the inability of undisciplined policymakers to set priorities and say no to special interests.

Certainly, some spending has resulted from truly unanticipated emergencies. The September 11 attacks necessitated a defense buildup well above the peacetime levels of the late 1990s. (See Chart 3.) However, the \$166 billion total increase in defense spending from 2000–2003 represents just 21 percent of the \$782 billion total spending increase, and less than 25 percent of that defense spending increase can be directly attributed to the

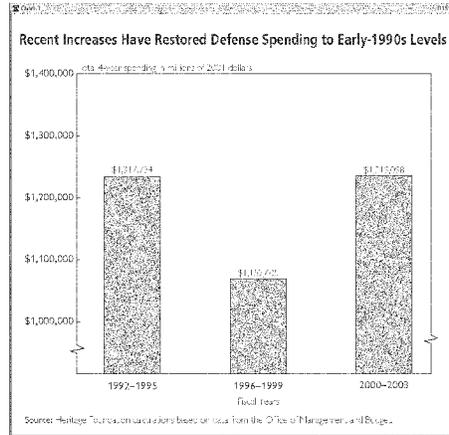
war on terrorism. While it is easy to blame legitimate national defense spending for Washington's recent spending spree, the 2000–2003 period still would represent the largest four-year per-household spending hike in 15 years even if defense spending had not risen at all.

Table 2 shows the program categories that comprise the largest proportion of the four-year spending surge. Not surprisingly, Social Security retains its status as the federal government's most expensive program, with the largest spending increase (\$173 billion). The expensive health care entitlement programs, Medicare and Medicaid, also continue their historical record of receiving large spending increases (with Medicaid growing by a much larger percent-

age). The category of "various income security programs," which includes such programs as Supplemental Security Income (SSI), Temporary Assistance for Needy Families (TANF), and payments from the refundable Earned Income Tax Credit (EITC), also receives substantially more money in 2000–2003 than it did from 1996–1999.

Although these major entitlements together received over half of the \$782 billion spending increase, they have been growing at roughly constant rates over the past 15 years, so their growth in funding does not sufficiently explain why recent spending increases are any larger than those of the 1990s. The 2000–2003 binge differentiates itself from past periods by spending enormous sums on traditionally low-cost programs, such as:

- **Agriculture.** After reaching \$79 billion from 1988–1991, farm subsidies dropped to \$70 billion from 1992–1995 and \$57 billion for the



Though Social Security and Defense Received the Most New Funding, Other Programs Grew at Faster Rates

Spending Category	Total Spending*		Spending Increase*		Percent of Total Four-Year \$782 Billion Increase
	1996-1999	2000-2003	Amount	Percent	
Social Security	\$1,583,772	\$1,756,727	\$172,955	11%	22%
National Defense	1,152,605	1,319,098	166,494	14%	21%
Medicaid	423,305	547,205	124,400	29%	16%
Medicare	797,763	867,194	69,431	9%	9%
Other Health Programs	126,836	189,788	62,952	50%	8%
Various Income Security Programs	314,312	376,779	62,436	20%	8%
Agriculture	56,687	116,911	60,224	106%	8%
Unemployment Compensation	99,871	150,151	50,283	50%	6%
Education	128,428	169,808	41,380	32%	5%
Housing Loans and Commerce	23,308	13,916	37,225	160%	5%
Justice Administration	92,524	129,595	37,071	40%	5%
Veterans Assistance	172,059	200,055	27,995	16%	4%
Highways and Mass Transit	113,674	140,389	26,715	24%	3%
Federal Employee Retirement and Disability	307,601	329,267	21,666	7%	3%
Air Transportation	44,420	64,856	20,436	46%	3%
Net Interest	1,021,153	774,410	246,743	-24%	-32%
Other Programs and Undistributed Offsetting Receipts	545,461	592,780	47,319	9%	6%
Total Outlays	\$6,957,193	\$7,739,432	\$782,239	11%	100%

Note: *All amounts in millions of 2001 dollars.

- four years following the 1996 “Freedom to Farm” reforms.⁴ Unfortunately, Congress overreacted to a slight dip in crop prices by passing a series of massive “emergency” payments, bringing farm subsidies to \$117 billion for the period of 2000–2003. (See Chart 4.) These spending increases culminated in the budget-busting 2002 farm bill, which was designed to lock in these high farm subsidy levels permanently.⁵
- **Health Programs** (Other than Medicare and Medicaid). While Medicare and Medicaid receive the most attention from health budget experts, Chart 5 shows the rest of the health budget growing from \$127 billion during the period from 1996–1999 to \$190 billion from 2000–2003. The doubling of the National Institutes of Health budget accounts for \$25 billion of this increase, while the new State Children’s Health Insurance Program (S-CHIP) will have spent \$13 billion. Other contributors to the expanding health budget include homeland security-related bioterrorism research and subsidies to health service providers.
 - **Education.** Despite a lack of persuasive evidence linking educational achievement to school funding, Chart 6 shows federal education funding expanding from the 1996–1999 sum of \$128 billion to the 2000–2003 sum of \$170 billion. This increase is spread across several areas, including Title I grants for disadvantaged children, special education grants, college student financial aid, and dozens of smaller grant programs. The Leave No Child Behind Act signed by President Bush in January 2002 authorizes additional education funding increases each year through 2007.⁶
 - **Unemployment Compensation.** As the most economically sensitive entitlement program, unemployment compensation payments will increase from the \$100 billion level during the booming 1996–1999 period to \$150 billion during the comparatively sluggish 2000–2003 period. (See Chart 7.) Of that \$150 billion, \$139 billion in unemployment compensation expenditures is occurring automatically without congressional involvement as the pool of unemployed workers signing up for benefits expands. The 2002 economic stimulus bill provided the other \$11 billion through a measure extending benefits for 13 additional weeks to those whose 26-week benefit limit had expired.⁷
- Policy makers often reject blame for rising unemployment expenditures because they did not anticipate the recession and most of the resulting new spending occurred automatically without their intervention. But while those expenditures were unforeseen and mostly inevitable, policy makers set themselves up for this budgetary crisis by overspending on other programs and leaving little room to fund any unanticipated needs comfortably down the road.
- Historic spending increases also have been provided to air transportation, highway and mass transit assistance, and the Department of Justice.⁸

SQUANDERING THE “INTEREST DIVIDEND”

Notably absent from this description of expanding federal spending is interest on the national debt. The most disappointing aspect of the 2000–2003 spending surge is that it is occurring at a time when interest payments will have dropped by \$247 billion as a result of the balanced budgets of the late 1990s. Starting out with such an automatic and

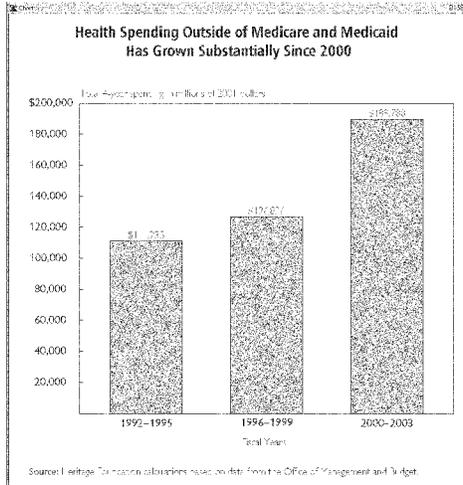
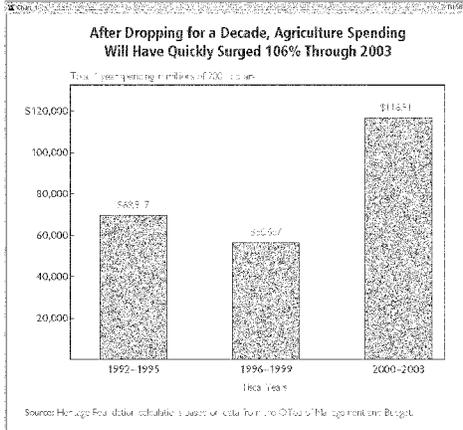
4. PL. 104–127, the Federal Agriculture Improvement and Reform (FAIR) Act of 1996.

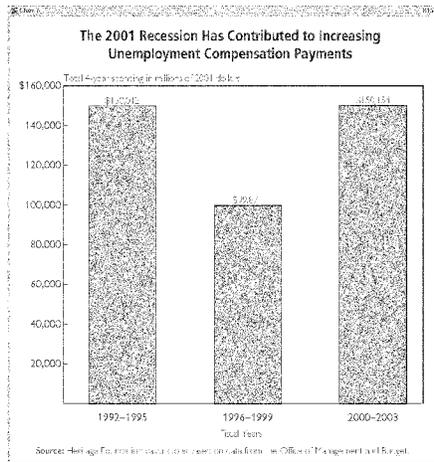
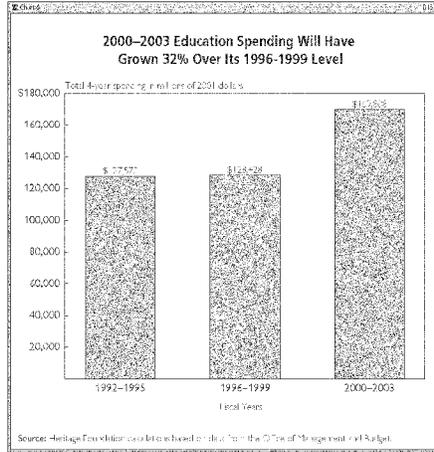
5. PL. 107–171, the Farm Security and Rural Investment Act of 2002, is estimated to cost over \$180 billion from 2002 through 2011.

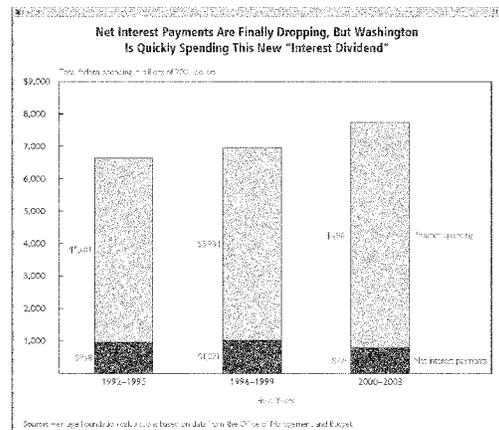
6. PL. 107–110, the Leave No Child Behind Act of 2001.

7. PL. 107–147, the Job Creation and Worker Assistance Act of 2002.

8. Table 2 shows the budget category of housing loans and commerce growing considerably, from a \$23 billion surplus from 1996–1999 to a \$16 billion expenditure from 2000–2003. Policy makers, however, could do little to reverse this cyclical new spending. The Federal Deposit Insurance Corporation (FDIC) ran a \$30 billion surplus from 1996–1999 as it sold the assets of scores of bankrupt financial institutions, and also collected higher premiums from financial institutions that finally were thriving after the savings and loan crisis. After 2000, the FDIC returned to its historical norm of no net spending.







ainless \$247 billion spending cut means that budget cutters had the wind at their back for the first time in nearly 50 years.

In the same manner that they wasted the post-Cold War "peace dividend" with new spending, however, Chart 8 shows Congress and the President squandering this once-in-a-lifetime "interest dividend" with \$1.029 trillion in new spending elsewhere in the budget, causing a net increase of \$782 billion.

FAILING TO REFORM ENTITLEMENTS

When examining the \$782 billion in new spending, some argue that policymakers should be held accountable only for the increases in discretionary

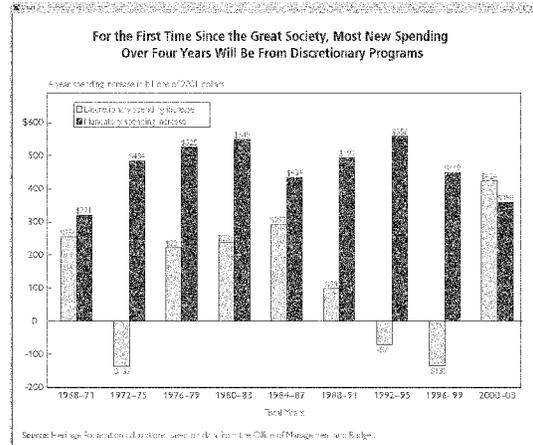
programs, not those in the entitlement programs. They point out that discretionary programs such as national defense have their budgets set each year by Congress and the President, who can trim back any programs with rising costs or declining value.⁹ Unlike discretionary programs, entitlement programs such as Social Security do not have spending totals set annually. Rather, policymakers decide who is eligible for a program and what the benefit formula will be. For the next several years, total spending is determined by how many eligible individuals enroll in the program and where they fit in the benefit formula.¹⁰ Therefore, the argument continues,

Congress and the President are responsible for the discretionary spending levels that are set annually, but not for spending on entitlement programs created decades ago and running on autopilot.

There are two problems with this argument. First, requirements that most entitlement programs be rewritten and renewed approximately every three to six years provide Congress and the President sufficient opportunity to trim back their spending levels. Policymakers who added an 80 percent funding increase to the 2002 renewal of farm subsidies should not be let off the hook simply because farm subsidies are classified as entitlements instead of discretionary spending.

9. A small portion of the discretionary budget is predetermined through "advanced appropriations," which requires that appropriated money not be spent until the following year. Only 3 percent of the discretionary budget falls under such advanced appropriations.

10. Some "capped entitlements" do contain annual spending limits. The most common type entitles a state (instead of an individual) to a pre-set funding level. For example, states are entitled to a TANF grant as long as they meet certain requirements. Individual entitlements can also be capped by setting a total spending limit and then reducing the grant amount if enrollment increases beyond projections. Current law requires that student Pell Grants be prorated from a \$4,000 per student maximum to a lower amount if enrollment exceeds projections and Congress does not respond with additional funding. Overall, capped entitlements comprise a small fraction of entitlement spending.



entitlement spending. (See Chart 9.)

This remarkable development cannot be overstated: For the past 30 years, as entitlement costs soared uncontrollably, not even Washington's biggest spenders allowed their discretionary budgets to grow faster than entitlements over an entire four-year period. That is, until now.

How could discretionary programs, which total just one-third of the federal budget, provide 54 percent of all new spending? Simply by growing 18 percent over 1996–1999 levels, a rate that dwarfs the 8 percent

increase in entitlement spending. This increase raised the 2000–2003 total cost of discretionary spending to \$26,334 per household—\$3,207 above the 1996–1999 level. (See Chart 10 and Chart 11.)

Second, policymakers need not even wait for an entitlement program's renewal date to reduce its spending. In its annual budget resolutions, Congress can attach "reconciliation" instructions to go back and reduce entitlement spending. Despite out-of-control spending, neither the House nor the Senate included any reconciliation instructions in its fiscal year 2003 budget resolution.¹¹ This endorsement of current entitlement spending levels earns current policymakers a share of the blame for the programs of their predecessors.

DISCRETIONARY SPENDING POWERS INCREASE

Even restricting this analysis to discretionary spending alone does not make policymakers appear any more fiscally responsible. Of the \$782 billion in new spending from 2000–2003, \$424 billion comes from discretionary programs, while \$358 billion comes from entitlement programs—thus marking the first four-year period since 1967–1970 that new discretionary spending will exceed new

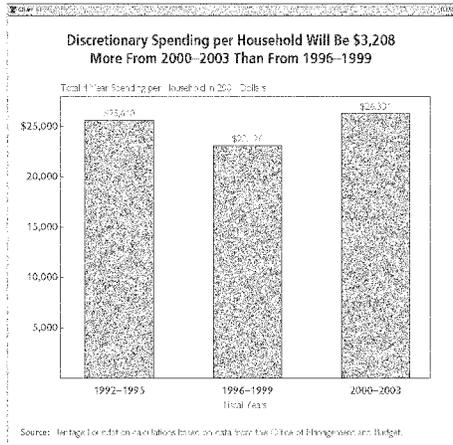
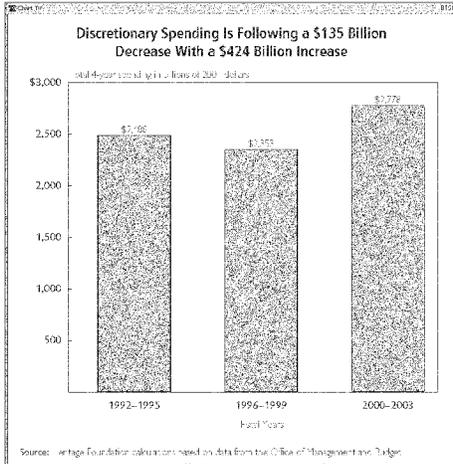
increase in entitlement spending. This increase raised the 2000–2003 total cost of discretionary spending to \$26,334 per household—\$3,207 above the 1996–1999 level. (See Chart 10 and Chart 11.)

Although defense spending typically encompasses half of all discretionary spending, even the \$164 billion defense increase partially brought on by the war on terrorism cannot match the \$260 billion increase in non-defense discretionary spending. Many of the spending categories in Table 1 that were responsible for the overall growth of government—such as education, health, justice, air transportation, and highway/transit assistance—are contributing heavily to the discretionary increases.

FEW PROGRAMS EXCLUDED FROM SPENDING SPREE

Proponents of big government have spent the past four years demanding that Congress and the President substantially increase spending on America's "most urgent" national priority. But what has

11. Although the House and Senate usually work out the differences between their respective budget resolutions in a conference committee, they kept their resolutions separate in FY 2003.



been this most urgent national priority? Some have said education; others, health research. Still others have said farm subsidies, the war on terrorism, or homeland security. Had policy-makers settled on funding one or two of the most important priorities (preferably those for which federal funding actually makes a significant difference), the federal budget would have remained somewhat under control.

But instead of making those difficult but responsible decisions, Congress and the President are simply throwing vast sums of money at all of these categories of programs. The result: an unaffordable "guns and butter" budget.

It would be a mistake to assume that Washington spenders are making any distinction between the necessities and unaffordable luxuries. Congress and the President have not even said no to the lower-priority programs in Table 3.

THE CONSEQUENCES OF UNRESTRAINED SPENDING

Increased government spending has weighed down even further an already sluggish economy and imposed taxes that hinder working families' ability to make ends meet. Growing economies require a base level of government spending on defense and justice to enforce the property rights and rule of law necessary for markets to function.

Even Lower-Priority Programs Are Receiving Large Spending Increases

Program	Total Spending*		Growth
	1996-1999	2000-2003	
Denali Commission	\$1	\$169	16800%
Power Marketing Administration	335	787	135%
Bureau of Export Administration	160	302	89%
Maritime Administration	823	1,434	74%
Foreign Agricultural Service	2,450	4,192	71%
Neighborhood Reinvestment Corporation	225	380	69%
Community-Oriented Policing Services (COPS)	2,884	4,648	68%
Inter-American Foundation	52	83	60%
Antrak	2,196	3,267	50%
Institute of Museum Services and Library Services	624	932	49%
National Capital Planning Commission	21	31	48%
Low-income Home Energy Assistance Program (LIHEAP)	5,121	7,428	45%
National Telecommunications and Information Administration	224	311	39%
U.S. Geological Survey	2,756	3,572	30%
Agricultural Marketing Service	2,815	3,598	28%
Corporation for Public Broadcasting	1,188	1,487	25%
Community Development Block Grants	17,317	21,246	23%
AmeriCorps Grants	1,177	1,285	9%

Note: *In millions of 2001 dollars.

Government facilitation of trade through the provision of roads and other public goods that are difficult for the private sector to provide also boosts economic growth.

Despite the outdated fallacy that government spending stimulates the economy, beyond this basic level, it impedes economic growth for three reasons:¹²

- **Diminishing Effectiveness.** Governments often begin their spending on such necessities as defense, law enforcement, and basic public goods. Empowered by the economic growth these services provide, they mistakenly conclude that they can solve any problem. Consequently, they tend to expand their efforts into services that the market is better equipped to provide, such as education, housing, food, and pensions. With each expansion, the government not only blocks the market from functioning, but also becomes less and less effective.

12. This three-category breakdown of the side effects of government spending is from James Gwartney, Robert Lawson, and Randall Holcombe, "The Size and Functions of Government and Economic Growth," Joint Economic Committee, April 1998.

itself, until it ultimately becomes a barrier to economic growth.

- **Politics.** Markets use the profit motive to ensure that resources will be allocated efficiently. Businesses seeking profits must consistently respond to consumer demand with quality products at low prices. Governments, by contrast, are monopolies with no real profit motive or incentive to spend money efficiently, so policymakers make re-election their "profit" and consequently allocate resources to even the most wasteful programs that can help ensure their return to office. While innovation and evolving with the changing times are required for businesses to survive, they represent an unnecessary risk for politicians who are guaranteed re-election as long as they do not interrupt the flow of government funds to their districts. The result: While markets helped the Model T evolve into the Porsche and the Apple IIe into supercomputers, the federal government continues to run many of the same obsolete federal agencies it established as far back as the 1800s.
- **High Taxes.** Increased government spending makes it difficult for working families to make ends meet. Even when the government funds itself by borrowing money, higher taxes will eventually be needed to repay those loans. Had the federal government simply allowed inflation-adjusted spending to remain at its 1996–1999 levels for the following four years, the average household would have \$5,006 more to spend on necessities such as health insurance, retirement, housing, or their child's education. Regrettably, those who praise all the items government buys with these tax dollars often ignore these items that are no longer affordable for most overtaxed families.¹³

In addition to their high cost, taxes hurt the economy by distorting incentives. Families and

businesses work, save, and invest because they expect a financial reward. These productive behaviors also make the rest of the nation wealthier by creating additional economic activity. But burdensome tax rates reduce the financial reward for being productive. Consequently, families and businesses cut back their productive behavior to escape taxes, and the entire economy falters.

Current federal expenditures are well beyond the threshold of economic harm. The Joint Economic Committee estimates that from 1801–1996, economic growth was maximized when federal spending equaled 13.4 percent of gross domestic product (GDP), which would equal \$1.4 trillion in 2001.¹⁴ In 2001, however, the federal government spent 19.1 percent of GDP, or \$2 trillion. The resulting decrease in economic growth has had the real effects of costing jobs, lowering incomes, and increasing poverty. What is needed instead is fiscal discipline.

CONCLUSION

Since 2000, massive spending increases have been added gradually to a diverse group of federal programs, ranging from farm subsidies to education and health care. Without any priority setting or spending discipline among federal policymakers, these increases are estimated to total \$782 billion from 2000–2003, costing the average household \$5,006 in higher taxes. Unless Congress and the President make a concerted effort to address runaway spending, families will continue to have difficulty making ends meet, and the economy will struggle under the suffocating weight of an ever-expanding federal government.

—Brian M. Riedl is Grover M. Hermann Fellow in Federal Budgetary Affairs in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation.

13. Nobel Prize-winning economist Milton Friedman has argued persuasively that, because they are spending their own money and not someone else's, individuals have better incentives to spend efficiently than do governments. Consequently, allowing families to spend their own money on items such as education and health care will be more effective than having governments tax these families in order to purchase the services for them.

14. Richard Vedder and Lowell Gallaway, "Government Size and Economic Growth," Joint Economic Committee, December 1998.

Mr. CHABOT. Thank you very much. We thank all the witnesses. Now the panel members will have 5 minutes to ask questions, and I'll begin with myself.

Did you want to make your statement at this time?

Mr. ISTOOK. Mr. Chairman, if I might, I appreciate that.

Mr. CHABOT. Go ahead, yes.

Mr. ISTOOK. Thank you, Mr. Chairman. I might add there are a couple of comments outside my prepared testimony that I wish to make.

I appreciate, Mr. Chairman, you holding this hearing today. Representative Stenholm and I have reintroduced the balanced budget amendment for the U.S. Constitution, along with what currently is 103 Members of the House. Although, recently we enjoyed 4 years of balanced Federal budgets; the results of 9/11, the fight against terrorism, and economic challenges have all pushed us back into a sea of red ink. Unfortunately, we find that in times of surplus, opponents of the balanced budget say, well, we don't need an amendment. And in times of deficit, those opponents say, well, we cannot afford an amendment. It seems that to some people there is no appropriate time. I believe the American people believe differently.

Although, borrowing can be justified to protect the country in a time of national emergency; deficits should not be acceptable in normal times. Unless we first set a goal of balancing the budget again, it never will happen. And recent experience, once again, proves we need the discipline that a balanced budget amendment provides.

I'm especially happy with the support of the Chairman of the full Committee and your support, Mr. Chairman, as the Chairman of the Subcommittee. And, of course, it would not be possible today to consider this without the hard work done by the long-time leading Democrat on the issue, Congressman Charlie Stenholm of Texas. And I want to acknowledge the fine work done by the National Taxpayers Union as well as that of Senator Larry Craig, who's been working on the issue for the last quarter century.

It is time to set the standard and show America what our goals are. It doesn't matter what side of the aisle you're on. Some people complain about the deficit, and they say that's why they oppose tax relief. Other people complain about the deficit and say that's why they oppose spending. But everyone who complains about the deficit should support the goal of balancing the budget again. It is hypocritical to say you oppose the deficit but you don't support the balanced budget amendment.

With the expenses of the war on terrorism, we will not balance the budget in the next year or two. And it will take a couple of years for the amendment to be ratified by the States. But the goal needs to be set now to balance the budget again. Without a commitment to the goal, it never will be achieved. Our children and our grandchildren will pay a heavy price, if we don't return to a balanced budget. Not only would they face the high taxes of big Government, but they would bear the extra expense of paying off the bills that we run up today.

This balanced budget amendment proposal, H.J.R. 22, is identical to the language passed by a vote of 300 to 132, in the House in 1995, as part of what was called the original Contract with

America. In the U.S. Senate in 1997, it failed by one single vote. Since then, neither the House nor the Senate have voted on it. Obviously, there are many new faces in Congress, and we now have 212 House Members who have never been held accountable because they've never had to vote on a balanced budget amendment. We believe the time has come for every Member of Congress to be held accountable by being required to address this issue head on.

The amendment does include an exemption for times when Congress declares a national emergency, but during peacetime, it would require a supermajority of Congress for the Federal Government to operate at a deficit. With that supermajority, it could do so. No ordinary law can restrain Congress because Congress has the power to remove that safeguard whenever it wishes by a simple majority vote. The only real protection against permanent deficit spending is constitutional protection.

In light of the current national emergency, more than ever we need this amendment to ensure that deficit spending will end. I'm concerned that sometimes we hear what I think are very misleading statistics being tossed around. For example, some people will say, well, the Federal deficit is only 3 percent of the gross domestic product, or the projected deficit is only about 3 percent. Mr. Chairman, that's saying that it's 3 percent of other people's money. The U.S. Government does not own the American economy, nor anything that belongs to the American people. That's akin to a business saying that, well, our debt is only 3 percent of our customers' money.

Let's talk about what percentage this is of the United States Government and its money, its cash flow. If you look at it in those terms, you'll find that the deficits we're looking at are approximately 40 percent or more of discretionary spending, 15 percent of overall spending. Let's not diminish or downplay the problem or try to understate it by claiming it's only 3 percent or so of GDP. Let's look at how large it is in terms of the overall Federal budget. It is very significant when we look at it in that perspective.

Mr. Chairman, we are not embarking upon an easy process. But as was stated by a former President, some things we choose to do not because they are easy but because they are hard. Sometimes, if it's worth doing, it's a challenge, but it is worth doing.

Thank you, Mr. Chairman.

Mr. CHABOT. Thank you, and I recognize myself for 5 minutes. I'll begin with Mr. Beach.

Mr. Beach, you started out your testimony by saying something that I agree with, and that's that we should balance the budget whether or not we have a constitutional amendment requiring us to do so. Unfortunately, we have been unable or unwilling to do that except for about 3 years in the last 35 years or so, you know, because we just don't show the restraint around this place that we ought to. That's in my view the principal reason; although, there are other factors as well—September 11th, the weakening economy, et cetera.

You also stated that there's a difference, of course, between the States right now which are in the budget crunch time and the Federal Government. It's the same basic issue, but with the States, they have in their constitutions—most—that they have to balance

the budget. So, they actually have to make the tough decisions. And sometimes it's not pretty, but they have to make those decisions.

Unfortunately, we kind of get to punt. We get to pay for everything or spend everything, and we're either printing money or borrowing, whatever—however you want to look at it. And as a result of that, we—over the years we've built up this huge debt, and my recollection is it's about 16 cents on every dollar that we take from the American taxpayer goes just to pay their share of the interest on that debt.

Could you discuss briefly what impact that has on the economy, what impact it has on employment, and what does it really do to people, taking that particular amount of money out of their pockets and paying off the debt? What do they get for it, in other words?

Mr. BEACH. Well, let's start with the silver lining, I think, and that is that everything that the debt has paid for, the public desires. In that case, they are getting the Government that they desire.

Now, one of my points early on is this: that because the Congress and the Administration are able to borrow a lot of money, we don't really know whether that's what the public wants when laws are enacted and so forth. So, it's a little unclear whether or not the debt which we have has, in fact, purchased the Government that the public wants. And I believe that is an open question.

Does the debt affect the U.S. economy? Well, most certainly it does, but in kind of strange ways. When the debt is at the level that it's at right now, which is roughly 34 or 35 percent of gross domestic product, which is one way of thinking about it, it probably isn't large enough that it is actually a barrier to entrepreneurship and economic growth. It may very well be a weight on entrepreneurship and economic—but not a barrier, like in some countries where it's several hundred times more than the GDP or twice the GDP or three times the GDP.

But here's what I think happens when you do see debt accumulated by Government, certainly at the Federal level. Current generations begin to think, well, that's probably going to require one of two things in the future: a tax increase or a spending cut. Or it's going to require some kind of changes in public policy that produce a stronger economy, so increasing revenues occur. And they begin to discount certain kinds of risks. The stock market looks at a new business and, well, I can only invest in that business, but sometime in the future tax rates are going to have to go up. Or the subsidies or the infrastructure the Government provides with this kind of business are going to have to be pulled back. And so that business doesn't get created, and the jobs that come from that business don't get created, and that slows the economy.

So I'm not at the point where I'm going to say push the red button on our debt. It's growing, it's a problem, it should be addressed. But to say that it is completely inconsequential is certainly wrong, both from a theory standpoint and from the statistics as well.

Mr. CHABOT. Thank you very much.

Dr. Berthoud, let me turn to you, if I can. As you know, I'm a firm believer in tax cuts, and I know that your organization is as well. Could you discuss briefly—and I've only got about a minute

here, so I'll have to make it relatively brief—the impact on passing a balanced budget amendment requiring us to balance the budget and the effect that it would have on our ability to implement tax cuts, either in the near term or the long term, the impact that those tax cuts would have on the economy and balancing it and that whole general thing.

Mr. BERTHOUD. I think obviously it would make it harder to either enact further tax relief or, on the flip side of the coin, to increase spending. It would require Congress and the President to make choices.

Now, I know certainly in this Subcommittee there are deep differences, as were stated in the opening statements, on what is the appropriate level of taxation. Some members, apparently, base it on 38 percent of income taxes. Some members may want to see that at 40 percent, 45, 50 percent. It's the view of the National Taxpayers Union and I think of you that 38 percent is more than enough and, in fact, it should be a lot lower.

That's a debate we would have in the context of the balanced budget amendment, but it would be a different debate as the debates on spending would be, because anything we did we would have to pay for. We would have discussions.

Bill Beach has a discussion in his testimony on dynamic scoring. We can talk about that issue. I think sometimes tax cuts, they don't pay for themselves entirely, but there is some revenue recapture that I think is not being reflected in current models of the Joint Tax Committee.

Mr. CHABOT. Okay. Thank you very much. I appreciate that.

And we'll now turn to the gentleman from New York, Mr. Nadler, for 5 minutes.

Mr. NADLER. Thank you

Dr. Berthoud, I think I'll ask you the question first. I think it was you and Mr. Beach who said that States have to balance their budgets. States have capital budgets. States have to balance their expense budgets or their operating budgets, not their capital budgets. They borrow from their capital budget. So does any business or so does a family in the sense of a car loan or a home mortgage. And, for that matter, States—and Governor Rockefeller and former Attorney General Mitchell led the way in inventing moral obligation bonds so the State of New York probably has, I don't know, 10 or 20 times as much moral obligation bonds as it does regular bonds outstanding. So that's the difference in the Federal Government in that respect, except that we don't have a capital budget. And when you say you have to balance the budget, you're saying we shouldn't borrow. Unlike families, corporations, States, local governments, we should borrow under no circumstances.

Does that make economic sense?

Mr. BERTHOUD. You raise an excellent point, and I think in the best of all worlds, I think we could have an exception for a capital budget of the Federal Government. Of course, you know, I haven't done the count, but of the 535 Members of the United States House and Senate, I am sure a strong majority have issued repeated statements about the virtues of balancing the budget, but year in and year out we don't get it done. Here we're saying, if I could, we're saying, you know, we have to do a balanced budget amend-

ment because Congress cannot do it otherwise. I think what I'm saying is in an ideal world, I think we should have a capital budget. I think the reality is—

Mr. NADLER. And the expense budget should be balanced, and the capital budget should be financing that borrowing.

Mr. BERTHOUD. I think, unfortunately, the reality is that a capital budget in the context of BBA would create too big a loophole, and I think honestly it would be more harm than good because I think it would be—and I have seen this in States, that all too often capital budgets are abused, and there's—it creates fiscal—

Mr. NADLER. Let me ask Mr. Kogan to comment on that quickly.

Mr. KOGAN. It's a difficult question to answer. Because I oppose the amendment, I wouldn't support this amendment with a capital budget—

Mr. NADLER. I don't support it either, but don't you think—

Mr. KOGAN. But, no—

Mr. NADLER.—even considering—

Mr. KOGAN. In considering how we budget, I think it is better not to treat capital separately from other expenses. I think—and there are a couple of reasons for that.

The first is that capital is not the only type of investment we make. We make investments in education. We make investments in job training. We make investments in scientific research, civilian and military.

Mr. NADLER. Some people would call—

Mr. KOGAN. Some people would. And the debate over what is a true capital expenditure would become a matter of theology rather than accounting. Leaving it to the accountants is only useful in a tax environment. It is not—it does not necessarily make good public policy.

Beyond that, certain things that are not capital expenditures as such—the expenditures for a standing army, for example—nonetheless, have benefits for the future, not just for the present.

Mr. NADLER. Let me ask you, Mr. Kogan, one quick question, with a quick answer, and then I have another question for the other witnesses, and then I'll finish. We keep hearing the virtues of a balanced budget. Now, we have a national debt, and obviously if the deficit—if you have a deficit, the national debt goes up; if you have a surplus, the national debt goes down. We also have economic growth.

From an economic point of view, do you really need a balanced budget over time, or is it sufficient to have a budget that—a Federal budget arrangement over time such that in combination with your economic growth rate your national debt as a percentage of GDP is going down, not up; even though you may have—in other words, if you have a small deficit this year but the growth rate is big enough, your national debt as a percentage of GDP is going down. From an economic point of view, isn't that all you really need?

Mr. KOGAN. Two points. First of all, you are right. During the period from 1946 to 1980, we ran deficits almost every year. I think we had surpluses in only 3 or 4 years. Nonetheless, the debt-to-GDP ratio dropped from 111 percent of GDP to 25.5 percent of GDP because the deficits were small, they were smaller than the

rate of growth of the economy. This is like saying that what I could afford to put on my credit card the year I graduated from college, which was about \$10, is—can grow as I become wealthier, and nonetheless, my economic circumstances are a lot better now than when—

Mr. NADLER. So that is sufficient from an economic point of view.

Mr. KOGAN. Yes. But the point that Dr. Smetters made, which is that we see in front of us large deficits looming, argues that we should be running down the debt now.

Mr. NADLER. Yes, I understand. And my last question is for Dr. Berthoud. The Treasury Secretary, the President, the Majority Leader of the House, and Sue Myrick, among others, are telling us that the massive deficits we are running are not cause for worry and that they, in fact, would prefer a small Government with large deficits to a large Government with small—with balanced budgets.

Are they wrong or are the proponents of this amendment wrong? Which is the case?

Mr. BERTHOUD. I think the context of—I think Dr. Kogan was right. First, debt as a share of GDP, and as you rightly mentioned, that is one of the most critical variables that we have to look at, and I think—

Mr. NADLER. They're telling us it's not anymore.

Mr. BERTHOUD. Well, I think what they're saying—well, I don't want to speak for them, but what I would say is that the deficits we have right now as a share of GDP—certainly, I think we all know this—were a lot higher in the 1980's. And I think as Bill Beach said, the levels of deficit and debt as a share of the economy that we're at right now are not particularly troubling. I think the goal should be reducing the debt as a share of GDP, but the important thing—and this goes to Dr. Smetters' testimony—the big elephant in the room is this long-term liability we face with Social Security and Medicare. And in that context, I think we have to think about it differently. And—

Mr. NADLER. That's very different from what this amendment says, which is that you should never have any debt in a given year.

Mr. BERTHOUD. Well, I think what this amendment is trying to do is saying that year in and year out there should be fiscal responsibility. And I think in the context—

Mr. NADLER. That's not what the amendment says. The amendment says no debt, it must be balanced every single year except during time of national emergency.

Mr. CHABOT. The gentleman's time has expired, but if you'd like to respond to the question.

Mr. BERTHOUD. I was going to say it says no deficit, and—

Mr. NADLER. Except in time of national emergency.

Mr. BERTHOUD. That's right.

Mr. CHABOT. Okay. The gentleman from Virginia, Mr. Scott, is recognized for 5 minutes.

Mr. SCOTT. The gentleman from New York has pointed out that in a capital budget, the theology aspect of it is to give you an incentive, instead of building a prison, just lease the prison, and, in fact, you can help balance your budget by selling the prison that you already own and then leasing it back. And you have the accounting games.

We are in a situation now where I think people have an excuse for running up the deficits. On September 10th, we had—we were—had spent all the surpluses we had run up, on-budget surplus, and we spent up just about all of the Medicare and were heading into Social Security. That's on September 10th.

Now that September 11th happened, now we have an excuse and there has been no limit on what kind of deficits we're running up. And when I made my remarks, I asked people to talk about how this amendment would get us into balance. Everybody talked about how nice a balanced budget is, but not how this amendment, other than the title, would help us get there.

This title doesn't require a balanced budget. It just tells you how to pass an unbalanced budget. Now, it doesn't have any tough choices in it. You've still got to make the tough choices. The gentleman, Dr. Berthoud, said that if the balanced budget magic wand is passed, the farm bill would not have passed, the tax cuts would have.

Mr. BERTHOUD. No, I didn't say that. I said neither might not have passed.

Mr. SCOTT. Well, if, as is likely the case now and knowing how we operate, there is no suggestion on the books that we balance the budget in 1 year. If you propose a draconian deficit reduction package, draconian to try to get the thing in balance, you'd need 60 votes rather than a simple majority. My question to you: Are you more likely to pass a draconian deficit reduction package with a 60-vote—a two-thirds requirement, or are you more likely to pass it with a simple majority?

Mr. BERTHOUD. If I could, I think you're absolutely right, Congressman, that this is not about—this amendment does not say we will cut farm subsidies or mass transit subsidies—

Mr. SCOTT. Well, if you—I don't have much time.

Mr. BERTHOUD. Sorry.

Mr. SCOTT. It's a simple question. Are you more likely to pass a draconian deficit reduction package with a two—with a three-fifths majority requirement or a simple majority?

Mr. SMETTERS. No, it's the override you need a three-fifths. I mean, you're required—

Mr. SCOTT. You are not required. You have—if you're going to pass a deficit reduction package, a draconian deficit reduction package—nobody up here is thinking about balancing the budget in 1 year. My question is: Is the two—is the three-fifths requirement to pass a budget more likely to produce a draconian deficit reduction package or a Katy-bar-the-door, everybody, Christmas-tree time, you need my vote, you've got to add another, for me, aircraft carrier. The gentleman from Texas is going to get himself the supercollider opened back up.

This afternoon, we had on the agenda something that was going to pass, a little tax relief for soldiers. And you're looking to find friends and you've got the tacklebox people with their little goody, and you've got the gamblers from—overseas gamblers got their little goodies. There are no tough choices. If you need the votes and it's going to pass, are you more likely to pass a draconian deficit reduction package or are you more likely—by upping it to 60 percent, more likely to pass a Katy-bar-the-door, everybody get their

goodies in it? Does anybody know? If we could just pass the title without having to go in detail—

Mr. NADLER. Would the gentleman yield for a moment?

Mr. SCOTT. I'll yield.

Mr. NADLER. I think the fact that the leadership of the House just took the armed forces tax relief bill off the floor a few minutes ago indicates that by adding 100 percent additions and drives the Members to vote for the bill, it wasn't sufficient. So that may answer your question.

Mr. SCOTT. Well, the—

Mr. BEACH. Congressman Scott—

Mr. SCOTT. I assume that the military exception that we're in right now would make the whole debate moot, anyway, and get us back to try to make the tough decisions.

A final question, a point I'd like to make, and then I'll just yield to whoever wants to say whatever they want, is that the Social Security situation makes this whole thing ridiculous. In 19—in 2037, we are going to be running up a deficit on Social Security in the overall range—in the trillion-dollar-a-year range. This amendment—maybe about \$800 billion. This amendment would prevent us—if we had built up the surplus like we're supposed to in the lockbox, we couldn't spend out of the lockbox. How are we going to—what happens in 2037 if this—if the title passed and it actually meant something?

Mr. BEACH. It is very important for this Congress and the Congresses that follow it to make the changes in Medicare and Social Security that will prevent us from having to come up with \$43 trillion. But many of us on the outside, and many Members of Congress, too, have very little confidence—

Mr. SCOTT. If you built up the lockbox, you couldn't spend the lockbox.

Mr. BEACH. Congressman, there isn't any lockbox, as you know, and there never has been. So it's fictions like that which prevent this from happening.

Now, what I was saying in my testimony is that my experience at the State level indicates one thing: that if legislators, Members of Congress in this case, are going to come to resolutions of problems, with all of the great difficulties they have when they have to put together a majority or two-thirds in order to pass anything, sometimes it's very helpful to have something outside of their deliberations pressing them to a decision. The public used to do that in the 19th century and the early 20th century. The public kept it there. But it's not there like it used to be.

At the State level, on expense budgeting, and sometimes on capital budgeting, it's the Governor saying if you don't do this, I'm going to veto this legislation, or I'm going to force you to a resolution.

But because of the constitutional framework that we have and the articles which govern the processes and rules of the House, without something else there, it's hard for the Members to come to that resolution.

Mr. SCOTT. How does that something else help? My judgment is the 60-vote requirement would hurt, because the 41 Senators that stand over on the side and say if you don't add an aircraft carrier

or supercollider or more agriculture bills and everything else, we're not voting for it, which would require everybody else to balance the budget overnight. They're not going to do it.

Mr. BEACH. Maybe you—maybe a line-item veto would be the route to take. Put the power in the hands of the President. But that's—that's not what you—

Mr. SCOTT. Would this make matters better or worse?

Mr. BEACH. I think it may help you resolve some of the problems that—

Mr. SCOTT. How?

Mr. BEACH.—you seem unable to resolve.

Mr. CHABOT. The gentleman's time's expired, but the gentleman has asked how, so if you'd like to take a shot at how, go right ahead.

Mr. BEACH. I'm not going to take a shot at how. That's well beyond my testimony. [Laughter.]

Mr. CHABOT. Okay. All right. Well, this is obviously a very complex area, and I feel very confident that it will pass the House. I can't speak for the Senate. But we appreciate the panel's testimony here this afternoon, and I would just reiterate that I would ask unanimous consent that all Members have 5 days to revise and extend their remarks and include extraneous material.

If there's no further business to come before the Committee, we are adjourned.

[Whereupon, at 1:14 p.m., the Subcommittee was adjourned.]

